TELEPHONE & DATA SYSTEMS INC /DE/
Form 10-Q
August 03, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)

[x]	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2018

OR

[ ]	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from
to

Commission file number 001-14157

TELEPHONE AND DATA SYSTEMS, INC.

(Exact name of Registrant as specified in its charter)

Delaware	36-2669023
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

30 North LaSalle Street, Suite 4000, Chicago, Illinois 60602
(Address of principal executive offices) (Zip code)

Registrant's telephone number, including area code: (312) 630-1900

	Yes	No
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.	[x]	[ ]
Indicate by check mark whether the registrant has submitted electronically every Interactive	[x]	[ ]

Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	[x]	Accelerated filer	[ ]
Non-accelerated filer	[ ]	Smaller reporting company	[ ]
		Emerging growth company	[ ]

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [ ]

[ ] [x]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at June 30, 2018
Common Shares, $0.01 par value	104,636,089 Shares
Series A Common Shares, $0.01 par value	7,273,678 Shares

Telephone and Data Systems, Inc.

Quarterly Report on Form 10-Q
For the Period Ended June 30, 2018

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Telephone and Data Systems, Inc.

Management's Discussion and Analysis of

Financial Condition and Results of Operations

Executive Overview

The following discussion and analysis compares Telephone and Data Systems, Inc.'s (TDS) financial results for the three and six months ended June 30, 2018, to the three and six months ended June 30, 2017. It should be read in conjunction with TDS' interim consolidated financial statements and notes included herein, and with the description of TDS' business, its audited consolidated financial statements and Management's Discussion and Analysis (MD&A) of Financial Condition and Results of Operations included in TDS' Annual Report on Form 10-K (Form 10-K) for the year ended December 31, 2017. Certain numbers included herein are rounded to millions for ease of presentation; however, calculated amounts and percentages are determined using the unrounded numbers.

This report contains statements that are not based on historical facts, including the words "believes," "anticipates," "estimates," "expects," "plans," "intends," "projects," and similar expressions. These statements constitute and represent "forward looking statements" as this term is defined in the Private Securities Litigation Reform Act of 1995. Such forward looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, events or developments to be significantly different from any future results, events or developments expressed or implied by such forward looking statements. See Private Securities Litigation Reform Act of 1995 Safe Harbor Cautionary Statement for additional information.

TDS uses certain "non-GAAP financial measures" and each such measure is identified in the MD&A. A discussion of the reason TDS determines these metrics to be useful and a reconciliation of these measures to their most directly comparable measures determined in accordance with accounting principles generally accepted in the United States of America (GAAP) are included in the Supplemental Information Relating to Non-GAAP Financial Measures section within the MD&A of this Form 10-Q Report.

General

TDS is a diversified telecommunications company that provides high-quality communications services to approximately 6 million connections nationwide. TDS provides wireless services through its 83%-owned subsidiary, United States Cellular Corporation (U.S. Cellular). TDS also provides wireline and cable services through its wholly-owned subsidiary, TDS Telecommunications LLC (TDS Telecom). See Note 12 — Business Segment Information in the Notes to Consolidated Financial Statements for summary financial information on each business segment.

TDS re-evaluated internal reporting roles with regard to its hosted and managed services (HMS) business unit and, as a result, changed its reportable segments. Effective January 1, 2018, HMS was considered a non-reportable segment and is no longer being reported under TDS Telecom. Prior periods have been recast to conform to this revised presentation.

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TDS Mission and Strategy

TDS' mission is to provide outstanding communications services to its customers and meet the needs of its shareholders, its people, and its communities. In pursuing this mission, TDS seeks to grow its businesses, create opportunities for its associates and employees, and build value over the long-term for its shareholders. Across all of its businesses, TDS is focused on providing exceptional customer experiences through best-in-class services and products and superior customer service.

TDS' long-term strategy calls for the majority of its capital to be reinvested in its operating businesses to strengthen their competitive positions and financial performance, while also returning value to TDS shareholders through the payment of a regular quarterly cash dividend and share repurchases.

In 2018, TDS is working to build shareholder value by continuing to execute on its strategies to build strong, competitive businesses providing high-quality, data-focused services and products. Strategic efforts include:

- U.S. Cellular continues to offer economical and competitively priced service plans and devices to its customers, and is focused on increasing revenues from sales of related products such as accessories and device protection plans and from new services such as fixed wireless broadband. In addition, U.S. Cellular is focused on expanding its solutions available to business and government customers, including a growing suite of connected machine-to-machine solutions and software applications across various categories.
- U.S. Cellular continues to devote efforts to enhance its network capabilities. To date, VoLTE technology has been launched successfully in California, Iowa, Oregon, Washington and Wisconsin, and deployments in several additional operating markets will occur later this year. VoLTE technology allows customers to utilize a 4G LTE network for both voice and data services, and offers enhanced services such as high definition voice and simultaneous voice and data sessions. In addition, the deployment of VoLTE technology expands U.S. Cellular's ability to offer roaming services to other wireless carriers.
- U.S. Cellular is committed to continuous technology innovation as demonstrated by its ongoing evaluation of 5G technology. U.S. Cellular has successfully tested 5G technology in both indoor and outdoor environments and is currently engaged in efforts related to the development of 5G standards and identifying potential use cases for the technology. When deployed commercially, 5G technology is expected to help address customers' growing demand for data services as well as create opportunities for new services requiring high speed and reliability as well as low latency.
- U.S. Cellular assesses its existing wireless interests on an ongoing basis with a goal of improving the competitiveness of its operations and maximizing its long-term return on capital. As part of this strategy, U.S. Cellular actively seeks attractive opportunities to acquire wireless spectrum, including pursuant to FCC auctions.

- TDS Telecom's Wireline business continues to focus on driving growth in its video, broadband, and managedIP services by investing in fiber inside existing markets and in new out-of-territory markets. With support from the FCC's A-CAM program, Wireline will deploy higher speed broadband services to more rural areas.
- TDS Telecom's Cable business continues to make network capacity investments and offer more advanced services in its markets in line with its strategy to increase broadband penetration.
- TDS Telecom's Wireline and Cable businesses are investing in a Cloud TV platform to enhance video services.

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Terms Used by TDS

The following is a list of definitions of certain industry terms that are used throughout this document:

- 4G LTE – fourth generation Long-Term Evolution which is a wireless broadband technology.
- 5G – fifth generation wireless broadband technology.
- Account – represents an individual or business financially responsible for one or multiple associated connections. An account may include a variety of types of connections such as handsets and connected devices.
- Auctions 1000, 1001, and 1002 – Auction 1000 is an FCC auction of 600 MHz spectrum licenses that started in 2016 and concluded in 2017 involving: (1) a "reverse auction" in which broadcast television licensees submitted bids to voluntarily relinquish spectrum usage rights in exchange for payments (referred to as Auction 1001); (2) a "repacking" of the broadcast television bands in order to free up certain broadcast spectrum for other uses; and (3) a "forward auction" of licenses for spectrum cleared through this process to be used for wireless communications (referred to as Auction 1002).
- Alternative Connect America Cost Model (A-CAM) – a USF support mechanism for rate-of-return carriers, which provides revenue support annually for ten years beginning in 2017. This support comes with an obligation to build defined broadband speeds to a certain number of locations.
- ASU 2014-09 – the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers, including any subsequent modifications to such guidance. This ASU replaces existing revenue recognition rules with a single comprehensive model to use in accounting for revenue arising from contracts with customers.
- Broadband Connections – refers to the number of Wireline customers provided high-capacity data circuits via various technologies, including DSL and dedicated internet circuit technologies or the Cable billable number of lines into a building for high-speed data services.
- Churn Rate – represents the percentage of the connections that disconnect service each month. These rates represent the average monthly churn rate for each respective period.
- Connected Devices – non-handset devices that connect directly to the U.S. Cellular network. Connected devices include products such as tablets, watches, modems, and hotspots.
- DOCSIS – Data Over Cable Service Interface Specification is an international telecommunications standard that permits the addition of high-bandwidth data transfer to an existing cable TV (CATV) system. DOCSIS 3.1 is a system specification that increases data transmission rates.
- EBITDA – refers to earnings before interest, taxes, depreciation, amortization and accretion and is used in the non-GAAP metric Adjusted EBITDA throughout this document. See Supplemental Information Relating to Non-GAAP Financial Measures within this MD&A for additional information.
- Eligible Telecommunications Carrier (ETC) – designation by states for providing specified services in "high cost" areas which enables participation in universal service support mechanisms.
- Free Cash Flow – non-GAAP metric defined as Cash flows from operating activities less Cash paid for additions to property, plant and equipment.
- Gross Additions – represents the total number of new connections added during the period, without regard to connections that were terminated during that period.
- IPTV Connections – represents the number of Wireline customers provided video services using IP networking technology.
- Machine-to-Machine or M2M – technology that involves the transmission of data between networked devices, as well as the performance of actions by devices without human intervention. U.S. Cellular sells and supports M2M solutions to customers, provides connectivity for M2M solutions via the U.S. Cellular network, and has

agreements with device manufacturers and software developers which offer M2M solutions.

- ManagedIP Connections – refers to the number of telephone handsets, data lines and IP trunks providing communications using IP networking technology.
- Net Additions – represents the total number of new connections added during the period, net of connections that were terminated during that period.
- OIBDA – refers to operating income before depreciation, amortization and accretion and is used in the non-GAAP metric Adjusted OIBDA throughout this document. See Supplemental Information Relating to Non-GAAP Financial Measures within this MD&A for additional information.
- Postpaid Average Billings per Account (Postpaid ABPA) – non-GAAP metric which is calculated by dividing total postpaid service revenues plus equipment installment plan billings by the average number of postpaid accounts and by the number of months in the period.
- Postpaid Average Billings per User (Postpaid ABPU) – non-GAAP metric which is calculated by dividing total postpaid service revenues plus equipment installment plan billings by the average number of postpaid connections and by the number of months in the period.
- Postpaid Average Revenue per Account (Postpaid ARPA) – metric which is calculated by dividing total postpaid service revenues by the average number of postpaid accounts and by the number of months in the period.
- Postpaid Average Revenue per User (Postpaid ARPU) – metric which is calculated by dividing total postpaid service revenues by the average number of postpaid connections and by the number of months in the period.
- Retail Connections – the sum of U.S. Cellular postpaid connections and U.S. Cellular prepaid connections.
- Tax Act – refers to comprehensive federal tax legislation enacted on December 22, 2017, which made broad and complex changes to the U.S. tax code. Now titled H.R.1, the Tax Act was originally identified as the Tax Cuts and Jobs Act of 2017.
- Universal Service Fund (USF) – a system of telecommunications collected fees and support payments managed by the FCC intended to promote universal access to telecommunications services in the United States.
- U.S. Cellular Connections - individual lines of service associated with each device activated by a customer. Connections include all types of devices that connect directly to the U.S. Cellular network.

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- ♦ Video Connections – generally, a home or business receiving video programming counts as one video connection. In counting bulk residential or commercial connections, such as an apartment building or a hotel, connections are counted based on the number of units/rooms within the building receiving service.
- ♦ Voice Connections – refers to the individual circuits connecting a customer to Wireline's central office facilities or the Cable billable number of lines into a building for voice services.
- ♦ VoLTE – Voice over Long-Term Evolution is a technology specification that defines the standards and procedures for delivering voice communications and related services over 4G LTE networks.
- ♦ Wireline Residential Revenue per Connection – is calculated by dividing total Wireline residential revenue by the average number of Wireline residential connections and by the number of months in the period.

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Results of Operations — TDS Consolidated

	Three Months Ended June 30,			Six Months Ended June 30,		
	2018[1]	2017	2018 vs. 2017	2018[1]	2017	2018 vs. 2017
(Dollars in millions)						
Operating revenues						
U.S. Cellular	$974	$963	1%	$1,915	$1,899	1%
TDS Telecom	230	231	–	461	459	–
All other2	51	53	(4)%	104	127	(18)%
Total operating revenues	1,255	1,247	1%	2,480	2,485	–
Operating expenses						
U.S. Cellular	918	958	(4)%	1,794	1,840	(2)%
TDS Telecom	212	200	6%	417	398	5%
All other2	64	62	4%	128	138	(8)%
Total operating expenses	1,194	1,220	(2)%	2,339	2,376	(2)%
Operating income (loss)						
U.S. Cellular	56	5	>100%	121	59	>100%
TDS Telecom	18	31	(41)%	43	61	(29)%
All other2	(13)	(9)	(53)%	(23)	(11)	>(100)%
Total operating income	61	27	>100%	141	109	29%
Investment and other income (expense)						
Equity in earnings of unconsolidated entities	40	33	23%	78	65	20%
Interest and dividend income	6	4	65%	11	8	48%
Interest expense	(43)	(43)	(1)%	(86)	(85)	(1)%
Other, net	1	1	(33)%	2	2	(39)%
Total investment and other income	4	(5)	>100%	5	(10)	>100%

(expense)						
Income before income taxes	65	22	>100%	146	99	47%
Income tax expense	21	10	>100%	45	44	1%
Net income	44	12	>100%	101	55	84%
Less: Net income attributable to noncontrolling interests, net of tax	11	2	>100%	29	8	>100%
Net income attributable to TDS shareholders	$33	$10	>100%	$72	$47	52%
Adjusted OIBDA (Non-GAAP)3	$272	$242	12%	$568	$522	9%
Adjusted EBITDA (Non-GAAP)3	$319	$280	14%	$659	$597	10%
Capital expenditures	$138	$134	3%	$253	$230	10%

1 As of January 1, 2018, TDS adopted ASU 2014-09 using a modified retrospective approach. Under this method, the new accounting standard is applied only to the most recent period presented. See Note 2 — Revenue Recognition in the Notes to Consolidated Financial Statements for additional information.

2 Consists of corporate and other operations and intercompany eliminations.

3 Refer to Supplemental Information Relating to Non-GAAP Financial Measures within this MD&A for a reconciliation of this measure.

Refer to individual segment discussions in this MD&A for additional details on operating revenues and expenses at the segment level.

Equity in earnings of unconsolidated entities

Equity in earnings of unconsolidated entities represents TDS' share of net income from entities in which it has a noncontrolling interest and that are accounted for by the equity method. TDS' investment in the Los Angeles SMSA Limited Partnership (LA Partnership) contributed $20 million and $17 million for the three months ended June 30, 2018 and 2017, respectively, and $38 and $33 million for the six months ended June 30, 2018 and 2017, respectively, to Equity in earnings of unconsolidated entities. See Note 8 — Investments in Unconsolidated Entities in the Notes to Consolidated Financial Statements for additional information.

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Income tax expense

TDS' effective tax rate on Income before income taxes for the three and six months ended June 30, 2018, was 31.5% and 30.5%, respectively. The effective tax rate for the three and six months ended June 30, 2017, was 45.0% and 44.4%, respectively. The lower rate in 2018 as compared to 2017 is due primarily to the reduction of the U.S. federal corporate tax rate from 35% to 21% as a result of the Tax Act enacted in December 2017. Due to difficulty in reliably projecting an annual tax rate, TDS calculated income taxes for the six months ended June 30, 2017, based on an estimated year-to-date tax rate.

The bonus depreciation provision of the Tax Act is expected to substantially reduce TDS' current federal income tax liability in 2018. See Note 5 — Income Taxes in the Notes to Consolidated Financial Statements for additional information related to income taxes.

Net income attributable to noncontrolling interests, net of tax

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
(Dollars in millions)				
U.S. Cellular noncontrolling public shareholders'	$8	$ 2	$16	$ 6
Noncontrolling shareholders' or partners'	3	–	13	2
Net income attributable to noncontrolling interests, net of tax	$11	$ 2	$29	$ 8

Net income attributable to noncontrolling interests, net of tax includes the noncontrolling public shareholders' share of U.S. Cellular's net income and the noncontrolling shareholders' or partners' share of certain U.S. Cellular subsidiaries' net income.

Net income attributable to noncontrolling interests, net of tax increased during the six months ended June 30, 2018, due primarily to an out-of-period adjustment recorded in the first quarter of 2018. TDS determined that this adjustment was not material to any of the periods impacted. See Note 10 — Variable Interest Entities in the Notes to Consolidated Financial Statements for additional information.

Three and Six Months Ended

Net income and Adjusted EBITDA increased due primarily to improved Operating income levels at U.S. Cellular as a result of cost savings initiatives and a decrease in Cost of equipment sold.

*Represents a non-GAAP financial measure. Refer to Supplemental Information Relating to Non-GAAP Financial Measures within this MD&A for a reconciliation of this measure.

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U.S. CELLULAR OPERATIONS

Business Overview

U.S. Cellular owns, operates, and invests in wireless markets throughout the United States. U.S. Cellular is an 83%-owned subsidiary of TDS. U.S. Cellular's strategy is to attract and retain wireless customers through a value proposition comprised of a high-quality network, outstanding customer service, and competitive devices, plans, and pricing, all provided with a local focus.

OPERATIONS

- Serves customers with approximately 5.1 million connections including 4.5 million postpaid, 0.5 million prepaid and 0.1 million reseller and other connections

- Operates in 22 states
- Employs approximately 5,700 associates
- 6,478 cell sites including 4,105 owned towers in service

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Operational Overview

As of June 30,	2018	2017
Retail Connections – End of Period		
Postpaid	4,468,000	4,478,000
Prepaid	527,000	484,000
Total	4,995,000	4,962,000

	Q2 2018	Q2 2017	YTD 2018	YTD 2017
Postpaid Activity:				
Gross Additions	146,000	174,000	275,000	320,000
Net Additions (Losses)	(13,000)	23,000	(50,000)	(4,000)
Churn	1.19%	1.13%	1.21%	1.21%

The decrease in postpaid net additions for the three months ended June 30, 2018, when compared to the same period last year, was driven mainly by both lower handset and tablet gross additions as well as an increase in tablet churn. The decline in tablet gross additions reflects U.S. Cellular's decision to curtail promotions of heavily discounted tablets.

The increase in postpaid net losses for the six months ended June 30, 2018, when compared to the same period last year, was driven mainly by lower tablet gross additions and higher tablet churn.

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Postpaid Revenue

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Average Revenue Per User (ARPU)	$44.74	$44.60	$44.54	$45.00
Average Billings Per User (ABPU)1	$57.75	$55.19	$57.42	$55.49
Average Revenue Per Account (ARPA)	$118.57	$119.73	$118.38	$120.46
Average Billings Per Account (ABPA)1	$153.03	$148.15	$152.63	$148.54

1 Postpaid ABPU and Postpaid ABPA are non-GAAP financial measures. Refer to Supplemental Information Relating to Non-GAAP Financial Measures within this MD&A for a reconciliation of these measures.

On January 1, 2018, U.S. Cellular adopted the provisions of ASU 2014-09, using a modified retrospective method. Under this method, the new accounting standard is applied only to the most recent period presented, recognizing the cumulative effect of the accounting change as an adjustment to retained earnings at January 1, 2018. See Note 2 — Revenue Recognition in the Notes to Consolidated Financial Statements for additional details.

Postpaid ARPU increased for the three months ended June 30, 2018, when compared to the same period last year, driven by increases in device protection plan and regulatory recovery revenues. Such factors were partially offset by the impact of adopting the provisions of ASU 2014-09. Postpaid ARPA decreased for the three months ended June 30, 2018, when compared to the same period last year, due primarily to a decrease in postpaid connections per account driven by higher tablet churn. Application of the new accounting standard had the impact of reducing ARPU and ARPA for the three months ended June 30, 2018, by $0.41 and $1.07, respectively.

Postpaid ARPU and Postpaid ARPA decreased for the six months ended June 30, 2018, when compared to the same periods last year, due primarily to the impact of adopting the provisions of ASU 2014-09, as well as the impact of overall price reductions on plan offerings. Such factors were partially offset by the increases in device protection plan and regulatory recovery revenues. Application of the new accounting standard had the impact of reducing ARPU and ARPA for the six months ended June 30, 2018, by $0.47 and $1.24, respectively.

Under equipment installment plans, customers pay for their wireless devices in installments over a period of time. In order to show the trend in estimated cash collections from postpaid customer billings for both service and equipment, U.S. Cellular has presented Postpaid ABPU and Postpaid ABPA, which are calculated as Postpaid ARPU and Postpaid ARPA plus average monthly equipment installment plan billings per connection and account, respectively.

Postpaid ABPU and ABPA increased for the three and six months ended June 30, 2018, due primarily to an increase in equipment installment plan billings driven primarily by increased penetration of equipment installment plans.

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Financial Overview — U.S. Cellular

	Three Months Ended June 30,			Six Months Ended June 30,		
	2018[1]	2017	2018 vs. 2017	2018[1]	2017	2018 vs. 2017
(Dollars in millions)						
Retail service	$ 652	$ 647	1%	$ 1,301	$ 1,304	–
Inbound roaming	39	31	26%	66	58	15%
Other	50	62	(20)%	98	124	(22)%
Service revenues	741	740	–	1,465	1,486	(1)%
Equipment sales	233	223	5%	450	413	9%
Total operating revenues	974	963	1%	1,915	1,899	1%
System operations (excluding Depreciation, amortization and accretion reported below)	187	189	(1)%	365	364	–
Cost of equipment sold	240	260	(8)%	459	488	(6)%
Selling, general and administrative	342	351	(2)%	668	691	(3)%
Depreciation, amortization and accretion	159	155	3%	317	307	3%
(Gain) loss on asset disposals, net	1	5	(84)%	2	9	(75)%
(Gain) loss on license sales and exchanges, net	(11)	(2)	>(100)%	(17)	(19)	8%
Total operating	918	958	(4)%	1,794	1,840	(2)%

expenses

Operating income	$ 56	$ 5	>100%	$ 121	$ 59	>100%
Net income	$ 52	$ 12	>100%	$ 107	$ 40	>100%
Adjusted OIBDA (Non-GAAP)2	$ 205	$ 163	26%	$ 423	$ 356	19%
Adjusted EBITDA (Non-GAAP)2	$ 248	$ 198	25%	$ 507	$ 426	19%
Capital expenditures	$ 86	$ 84	2%	$ 155	$ 145	7%

1 As of January 1, 2018, U.S. Cellular adopted ASU 2014-09 using a modified retrospective approach. Under this method, the new accounting standard is applied only to the most recent period presented. See Note 2 — Revenue Recognition in the Notes to Consolidated Financial Statements for additional information.

2 Refer to Supplemental Information Relating to Non-GAAP Financial Measures within this MD&A for a reconciliation of this measure.

Service revenues consist of:

- ♦ Retail Service – Charges for access, airtime, recovery of regulatory costs and value added services, including data services and products

- ♦ Inbound Roaming – Charges to other wireless carriers whose customers use U.S. Cellular’s wireless systems when roaming

- ♦ Other Service – Amounts received from the Federal USF and tower rental revenues. Imputed interest on equipment installment plan contracts is included in 2017; however, it is not included in 2018 due to the impact of adopting the provisions of ASU 2014-09

Equipment revenues consist of:

- ♦ Sales of wireless devices and related accessories to new and existing customers, agents, and third-party distributors

Key components of changes in the statement of operations line items were as follows:

Total operating revenues

Retail service revenues increased for the three months ended June 30, 2018, and decreased for the six months ended June 30, 2018, as a result of the changes in Postpaid ARPU as previously discussed in the Operational Overview section.

Inbound roaming revenues increased for the three and six months ended June 30, 2018, primarily driven by higher data roaming usage.

Other service revenues decreased for the three and six months ended June 30, 2018, reflecting the exclusion of imputed interest income in 2018 due to the impact of adopting the provisions of ASU 2014-09. Federal USF revenues remained flat at $23 million and $46 million for the three and six months ended June 30, 2018. See the Regulatory Matters section in this MD&A for a description of the FCC Mobility Fund II Order (MF2 Order) and its expected impacts on U.S. Cellular’s current Federal USF support.

Equipment sales revenues increased for the three and six months ended June 30, 2018, due to the impact of adopting the provisions of ASU 2014-09, an increase in the average revenue per device sold, a mix shift from feature phones and connected devices to higher end smartphone devices, and an increase in accessories revenue. Such factors were partially offset by a decrease in the number of devices sold and a reduction in guarantee liability amortization for equipment installment contracts as a result of changes in plan offerings.

See Note 2 — Revenue Recognition in the Notes to Consolidated Financial Statements for additional details on the financial statement impact of ASU 2014-09.

Cost of equipment sold

Cost of equipment sold decreased for the three and six months ended June 30, 2018, due primarily to a decrease in the number of devices sold, as well as the impact of adopting the provisions of ASU 2014-09. Such factors were partially offset by increases due to a higher average cost per device sold, an increase in accessories cost, and a mix shift from feature phones and connected devices to higher cost smartphones.

Selling, general and administrative expenses

Selling, general and administrative expenses decreased by $9 million and $23 million for the three and six months ended June 30, 2018, respectively, due to lower commissions, advertising and bad debts expenses.

Depreciation, amortization and accretion

Depreciation, amortization, and accretion increased for the three and six months ended June 30, 2018, due primarily to an increase in amortization expense related to billing system upgrades.

(Gain) loss on asset disposals, net

Loss on asset disposals, net decreased primarily as a result of fewer disposals of certain network assets.

(Gain) loss on license sales and exchanges, net

Net gains in 2018 and 2017 were due to gains recognized on license sale and exchange transactions with various third parties.

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TDS TELECOM OPERATIONS

Business Overview

TDS Telecom operates in two reportable segments: Wireline and Cable. TDS Telecom's business objective is to provide a wide range of communication services to both residential and commercial customers, focused on high-quality broadband and video products.

OPERATIONS

- TDS Telecom provides broadband, video and voice services to approximately 1.2 million connections in 31 states.
- Employs approximately 2,800 employees.

- ♦ Wireline operates incumbent local exchange carriers (ILEC) and competitive local exchange carriers (CLEC) in 27 states.
- ♦ Cable operates primarily in Colorado, New Mexico, Texas, Utah, and Oregon.

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Financial Overview — TDS Telecom

Components of Operating Income

	Three Months Ended June 30,			Six Months Ended June 30,		
	2018[1]	2017	2018 vs. 2017	2018[1]	2017	2018 vs. 2017
(Dollars in millions)						
Operating revenues						
Wireline	$174	$181	(4)%	$349	$360	(3)%
Cable	57	51	12%	112	100	12%
TDS Telecom operating revenues	230	231	–	461	459	–
Operating expenses						
Wireline	153	153	–	302	304	(1)%
Cable	59	48	24%	116	95	22%
TDS Telecom operating expenses	212	200	6%	417	398	5%
TDS Telecom operating income	$18	$31	(41)%	$43	$61	(29)%
Net income	$16	$20	(22)%	$37	$40	(7)%
Adjusted OIBDA (Non-GAAP)2	$73	$80	(9)%	$152	$160	(5)%
Adjusted EBITDA (Non-GAAP)2	$75	$82	(8)%	$156	$164	(4)%
Capital expenditures	$46	$45	4%	$87	$71	22%

Numbers may not foot due to rounding.

1 As of January 1, 2018, TDS adopted ASU 2014-09 using a modified retrospective approach. Under this method, the new accounting standard is applied only to the most recent period presented. See Note 2 — Revenue Recognition in the Notes to Consolidated Financial Statements for additional information.

2 Refer to Supplemental Information Relating to Non-GAAP Financial Measures within this MD&A for a reconciliation of this measure.

Three and Six Months Ended

Operating revenues were flat for the three and six months ended June 30, 2018. Lower Wireline wholesale special access revenue and legacy voice and commercial products decreased revenues offset by Cable broadband and Cable and Wireline video connection growth and price increases.

Total operating expenses

Operating expenses increased for the three and six months ended June 30, 2018, due primarily to higher Wireline and Cable video programming costs, Wireline network maintenance and Cable IT-related expenses. In addition, operating expenses increased due to the impacts of adopting the provisions of ASU 2014-09. See Note 2 — Revenue Recognition in the Notes to Consolidated Financial Statements for additional information.

Capital expenditures

Capital spending increased for the three and six months ended June 30, 2018, to support strategic build-outs including market expansions, A-CAM and Cloud TV.

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WIRELINE OPERATIONS

Business Overview

TDS Telecom's Wireline business provides broadband, video and voice services. These services are provided to residential, commercial, and wholesale customers in a mix of rural, small town and suburban markets, with the largest concentration of its customers in the Upper Midwest and the Southeast. TDS Telecom's strategy is to offer its residential customers broadband, video, and voice services through value-added bundling. In its commercial business, TDS Telecom's focus is on small- to medium-sized businesses and its sales efforts emphasize advanced IP-based data and voice services.

Operational Overview

Residential broadband customers are increasingly choosing higher speeds in ILEC markets with 60% choosing speeds of 10 Mbps or greater and 28% choosing speeds of 50 Mbps or greater.

Increases in broadband speeds and video connection growth drove increases in average residential revenue per connection.

Total residential connections decreased by 2% as declines in voice connections outpaced the growth in video and broadband connections.

Total commercial connections decreased by 7% due primarily to a 9% decrease in voice connections, mostly in CLEC markets.

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Financial Overview — Wireline

Components of operating Income

	Three Months Ended June 30,			Six Months Ended June 30,		
	2018[1]	2017	2018 vs. 2017	2018[1]	2017	2018 vs. 2017
(Dollars in millions)						
Residential	$80	$81	(1)%	$160	$160	–
Commercial	46	50	(8)%	94	101	(7)%
Wholesale	46	49	(5)%	94	98	(5)%
Service revenues	173	180	(4)%	348	359	(3)%
Equipment and product sales	–	–	53%	1	1	39%
Total operating revenues	174	181	(4)%	349	360	(3)%
Cost of services (excluding Depreciation, amortization and accretion reported below)	67	65	2%	131	129	2%
Cost of equipment and products	–	1	(41)%	1	1	(32)%
Selling, general and administrative	50	49	1%	97	97	(1)%
Depreciation, amortization and accretion	36	37	(4)%	72	76	(5)%
(Gain) loss on asset disposals,	1	–	94%	1	1	17%

net						
Total operating expenses	153	153	–	302	304	(1)%
Operating income	$21	$28	(25)%	$47	$56	(16)%
Income before income taxes	$24	$30	(21)%	$52	$60	(13)%
Adjusted OIBDA (Non-GAAP)2	$57	$65	(13)%	$120	$133	(9)%
Adjusted EBITDA (Non-GAAP)2	$59	$67	(12)%	$124	$137	(9)%
Capital expenditures	$33	$33	2%	$62	$50	24%

Numbers may not foot due to rounding.

1 As of January 1, 2018, TDS adopted ASU 2014-09 using a modified retrospective approach. Under this method, the new accounting standard is applied only to the most recent period presented. See Note 2 — Revenue Recognition in the Notes to Consolidated Financial Statements for additional information.

2 Refer to Supplemental Information Relating to Non-GAAP Financial Measures within this MD&A for a reconciliation of this measure.

Residential revenues consist of:

- Broadband services, including fiber-based and other digital, premium and enhanced data services
- Video services
- Voice services

Commercial revenues consist of:

- TDS managedIP voice and data services
- High-speed and dedicated business internet services
- Voice services

Wholesale revenues consist of:

- Network access services primarily to interexchange and wireless carriers for carrying data and voice traffic on TDS Telecom's network and special access services to carriers and others
- Federal and State USF support

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Key components of changes in the statement of operations items were as follows:

Total operating revenues

Residential revenues decreased for the three and six months ended June 30, 2018, as declines in voice connections exceeded growth in video connections and rate increases. Broadband revenues increased due to increases in pricing as customers select faster speeds. Average voice connections declined 7% while average video connections grew 11%.

Commercial revenues decreased for the three and six months ended June 30, 2018, due to declining connections and services mostly in CLEC markets.

Wholesale revenues decreased for the three and six months ended June 30, 2018, due primarily to decreases in network access and special access services.

Cost of services

Cost of services increased for the three and six months ended June 30, 2018, due to higher programming charges related to growth in video, partially offset by a decrease in the costs of purchasing unbundled network elements, provisioning circuits and providing long-distance services.

Depreciation, amortization and accretion

Depreciation, amortization and accretion decreased as certain assets became fully depreciated, partially offset by an increase due to a reduction in depreciable lives of customer premise equipment.

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CABLE OPERATIONS

Business Overview

TDS Telecom's Cable strategy is to expand its broadband services and leverage that growth by bundling with video and voice services. TDS Telecom seeks to be the leading provider of broadband services in its targeted markets by leveraging its core competencies in network management and customer focus.

Operational Overview

Cable connections, including two small tuck-in acquisitions made in Q4 2017, grew 9% due primarily to a 14% increase in broadband connections.

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Financial Overview — Cable

Components of Operating Income

(Dollars in millions)	Three Months Ended June 30, 2018[1]	2017	2018 vs. 2017	Six Months Ended June 30, 2018[1]	2017	2018 vs. 2017
Residential	$47	$41	12%	$92	$82	12%
Commercial	10	9	7%	20	18	10%
Total operating revenues	57	51	12%	112	100	12%
Cost of services (excluding Depreciation, amortization and accretion reported below)	27	24	11%	52	48	9%
Selling, general and administrative	15	13	14%	28	25	10%
Depreciation, amortization and accretion	18	11	63%	35	21	67%
(Gain) loss on asset disposals, net	–	–	(12)%	1	1	(27)%
Total operating expenses	59	48	24%	116	95	22%
Operating income (loss)	$(3)	$3	>(100)%	$(4)	$5	>(100)%
Income (loss)	$(2)	$3	>(100)%	$(4)	$5	>(100)%

before income taxes						
Adjusted OIBDA (Non-GAAP)2	$16	$14	10%	$32	$27	18%
Adjusted EBITDA (Non-GAAP)2	$16	$14	10%	$32	$27	19%
Capital expenditures	$13	$12	9%	$24	$21	15%

Numbers may not foot due to rounding.

1 As of January 1, 2018, TDS adopted ASU 2014-09 using a modified retrospective approach. Under this method, the new accounting standard is applied only to the most recent period presented. See Note 2 — Revenue Recognition in the Notes to Consolidated Financial Statements for additional information.

2 Refer to Supplemental Information Relating to Non-GAAP Financial Measures within this MD&A for a reconciliation of this measure.

Residential and Commercial revenues consist of:

- Broadband services, including high-speed internet, security and support services
- Video services, including premium programming in HD, multi-room and TV Everywhere offerings
- Voice services

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Key components of changes in the statement of operations items were as follows:

Commentary

Total operating revenues

Residential revenues increased for the three and six months ended June 30, 2018, due to tuck-in acquisitions, growth in connections and price increases.

Commercial revenues increased for the three and six months ended June 30, 2018, due primarily to video price increases and increased ad sales.

Cost of services

Cost of services increased for the three and six months ended June 30, 2018, due primarily to increases in video programming fees and circuits expense.

Selling, general and administrative

Selling, general and administrative expenses increased for the three and six months ended June 30, 2018, due to increased IT-related expenses due to a billing conversion and higher property and other taxes.

Depreciation, amortization and accretion

Depreciation, amortization and accretion increased in 2018 due to the amortization of franchise rights and a reduction in depreciable lives of customer premise equipment. Cable changed its estimated useful life for video franchise rights from indefinite-lived to 15 years due primarily to the effects of increasing competition and advancements in technology for delivering and consuming video programming. See Note 1 — Basis of Presentation in the Notes to Consolidated Financial Statements for additional information on franchise rights.

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Liquidity and Capital Resources

Sources of Liquidity

TDS and its subsidiaries operate capital-intensive businesses. Historically, TDS has used internally-generated funds and also has obtained substantial funds from external sources for general corporate purposes. In the past, TDS' existing cash and investment balances, funds available under its revolving credit agreements, funds from other financing sources, including a term loan and other long-term debt, and cash flows from operating, certain investing and financing activities, including sales of assets or businesses, provided sufficient liquidity and financial flexibility for TDS to meet its normal day-to-day operating needs and debt service requirements, to finance the build-out and enhancement of markets and to fund acquisitions. There is no assurance that this will be the case in the future. See Market Risk for additional information regarding maturities of long-term debt.

Although TDS currently has a significant cash balance, TDS has incurred negative free cash flow at times in the past and this could occur in the future. However, TDS believes that existing cash and investment balances, funds available under its revolving credit agreements, receivables securitization agreement and expected cash flows from operating and investing activities will provide sufficient liquidity for TDS to meet its normal day-to-day operating needs and debt service requirements for the coming year.

TDS may require substantial additional capital for, among other uses, funding day-to-day operating needs including working capital, acquisitions of providers of cable, wireless or wireline telecommunications services, IT services or other businesses, spectrum license or system acquisitions, system development and network capacity expansion, debt service requirements, the repurchase of shares, the payment of dividends, or making additional investments. It may be necessary from time to time to increase the size of the existing revolving credit agreements, to put in place new credit agreements, or to obtain other forms of financing in order to fund potential expenditures. TDS' liquidity would be adversely affected if, among other things, TDS is unable to obtain short or long-term financing on acceptable terms, TDS makes significant spectrum license purchases, TDS makes significant business acquisitions, the LA Partnership discontinues or reduces distributions compared to historical levels, or Federal USF and/or other regulatory support payments decline. In addition, although sales of assets or businesses by TDS have been an important source of liquidity in prior periods, TDS does not expect a similar level of such sales in the future.

TDS' credit rating currently is sub-investment grade. There can be no assurance that sufficient funds will continue to be available to TDS or its subsidiaries on terms or at prices acceptable to TDS. Insufficient cash flows from operating activities, changes in its credit ratings, defaults of the terms of debt or credit agreements, uncertainty of access to capital, deterioration in the capital markets, reduced regulatory capital at banks which in turn limits their ability to borrow and lend, other changes in the performance of TDS or in market conditions or other factors could limit or restrict the availability of financing on terms and prices acceptable to TDS, which could require TDS to reduce its acquisition, capital expenditure and business development programs, reduce the acquisition of spectrum licenses, and/or reduce or cease share repurchases and/or the payment of dividends. TDS cannot provide assurance that circumstances that could have a material adverse effect on its liquidity or capital resources will not occur. Any of the foregoing would have an adverse impact on TDS' businesses, financial condition or results of operations.

Cash and Cash Equivalents

Cash and cash equivalents include cash and money market investments. The primary objective of TDS' Cash and cash equivalents investment activities is to preserve principal. Cash held by U.S. Cellular is for its operational needs and acquisition, capital expenditure and business development programs. TDS does not have direct access to U.S. Cellular cash unless U.S. Cellular pays a dividend on its common stock. U.S. Cellular has no current intention to pay a dividend to its shareholders.

At June 30, 2018, TDS' consolidated Cash and cash equivalents totaled $873 million compared to $619 million at December 31, 2017.

The majority of TDS' Cash and cash equivalents was held in bank deposit accounts and in money market funds that purchase only debt issued by the U.S. Treasury or U.S. government agencies across a range of eligible money market investments that may include, but are not limited to, government agency repurchase agreements, government agency debt, U.S. Treasury repurchase agreements, U.S. Treasury debt, and other securities collateralized by U.S. government obligations. TDS monitors the financial viability of the money market funds and direct investments in which it invests and believes that the credit risk associated with these investments is low.

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Financing

In May 2018, TDS entered into a new $400 million revolving credit agreement with certain lenders and other parties and U.S. Cellular entered into a new $300 million revolving credit agreement with certain lenders and other parties. Amounts under both of the new revolving credit agreements are available for general corporate purposes, including acquisitions, spectrum purchases and capital expenditures, and may be borrowed, repaid and reborrowed from time to time until maturity in May 2023. As a result of the new agreements, TDS' and U.S. Cellular's previous revolving credit agreements due to expire in June 2021 were terminated. As of June 30, 2018, there were no outstanding borrowings under the revolving credit agreements, except for letters of credit, and TDS' and U.S. Cellular's unused borrowing capacity was $399 million and $298 million, respectively. See Note 9 — Debt in the Notes to Consolidated Financial Statements for additional information.

In May 2018, U.S. Cellular also amended its senior term loan credit agreement in order to align with the new revolving credit agreement. There were no significant changes to the maturity date or other key terms of the agreement.

TDS and U.S. Cellular believe they were in compliance with all of the financial covenants and requirements set forth in their revolving credit agreements and the senior term loan credit agreement as of June 30, 2018.

U.S. Cellular, through its subsidiaries, also has a receivables securitization agreement to permit securitized borrowings using its equipment installment plan receivables for general corporate purposes. The unused capacity under this agreement was $200 million as of June 30, 2018, subject to sufficient collateral to satisfy the asset borrowing base provisions of the agreement. As of June 30, 2018, the USCC Master Note Trust (Trust) held $27 million of assets available to be pledged as collateral for the receivables securitization agreement. U.S. Cellular believes it was in compliance with all of the financial covenants and requirements set forth in its receivables securitization agreement as of that date.

TDS and U.S. Cellular have in place effective shelf registration statements on Form S-3 to issue senior or subordinated debt securities.

Long-term debt payments due for the remainder of 2018 and the next four years are $219 million, which represent 9% of the total gross long-term debt obligation at June 30, 2018.

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Capital Expenditures

Capital expenditures (i.e., additions to property, plant and equipment and system development expenditures), which include the effects of accruals and capitalized interest, for the six months ended June 30, 2018 and 2017, were as follows:

U.S. Cellular's capital expenditures for the six months ended June 30, 2018 and 2017, were $155 million and $145 million, respectively.

Capital expenditures for the full year 2018 are expected to be between $500 million and $550 million. These expenditures are expected to be used principally for the following purposes:

- Enhance network coverage by continuing to deploy VoLTE technology in certain markets and providing additional capacity to accommodate increased network usage, principally data usage, by current customers; and
- Invest in and replace end of life platforms.

TDS Telecom's capital expenditures for the six months ended June 30, 2018 and 2017, were $87 million and $71 million, respectively.

Capital expenditures for the full year 2018 are expected to be approximately $270 million. These expenditures are expected to be used principally for the following purposes:

- Maintain and enhance existing infrastructure including build-out requirements to meet state broadband and Federal A-CAM programs;
- Upgrade broadband capacity and speeds;
- Support success-based spending to sustain IPTV, broadband, and Cable growth;
- Build Cloud TV platform; and
- Expand fiber deployment, within and outside of current markets.

TDS plans to finance its capital expenditures program for 2018 using primarily Cash flows from operating activities, existing cash balances and, if required, its receivables securitization and/or revolving credit agreements.

Acquisitions, Divestitures and Exchanges

TDS may be engaged from time to time in negotiations (subject to all applicable regulations) relating to the acquisition, divestiture or exchange of companies, properties, wireless spectrum and other possible businesses. In general, TDS may not disclose such transactions until there is a definitive agreement. TDS assesses its business interests on an ongoing basis with a goal of improving the competitiveness of its operations and maximizing its long-term return on capital. As part of this strategy, TDS actively seeks attractive opportunities to acquire wireless spectrum, as well as telecommunications or cable markets, or other possible businesses. TDS also may seek to divest outright or include in exchanges for other interests those interests that are not strategic to its long-term success.

Variable Interest Entities

TDS consolidates certain “variable interest entities” as defined under GAAP. See Note 10 — Variable Interest Entities in the Notes to Consolidated Financial Statements for additional information related to these variable interest entities. TDS may elect to make additional capital contributions and/or advances to these variable interest entities in future periods in order to fund their operations.

Common Share Repurchase Programs

TDS and U.S. Cellular have repurchased and expect to continue to repurchase their Common Shares, in each case subject to any available repurchase program. However, there were no share repurchases made under these programs in the six months ended June 30, 2018, or in the year ended December 31, 2017.

As of June 30, 2018, the maximum dollar value of TDS Common Shares that may yet be purchased under TDS’ program was $199 million. For additional information related to the current TDS repurchase authorization, see Unregistered Sales of Equity Securities and Use of Proceeds.

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U.S. Cellular also has a share repurchase authorization. As of June 30, 2018, the total cumulative amount of U.S. Cellular Common Shares authorized to be purchased is 5,900,849.

Contractual and Other Obligations

There were no material changes outside the ordinary course of business between December 31, 2017 and June 30, 2018, to the Contractual and Other Obligations disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations included in TDS' Form 10-K for the year ended December 31, 2017.

Off-Balance Sheet Arrangements

TDS had no transactions, agreements or other contractual arrangements with unconsolidated entities involving "off-balance sheet arrangements," as defined by SEC rules, that had or are reasonably likely to have a material current or future effect on its financial condition, results of operations, liquidity, capital expenditures or capital resources.

Consolidated Cash Flow Analysis

TDS operates a capital- and marketing-intensive business. TDS makes substantial investments to acquire wireless licenses and properties and to construct and upgrade communications networks and facilities as a basis for creating long-term value for shareholders. In recent years, rapid changes in technology and new opportunities have required substantial investments in potentially revenue enhancing and cost-reducing upgrades to TDS' networks. TDS utilizes cash on hand, cash from operating activities, cash proceeds from divestitures and dispositions of investments, and short-term and long-term debt financing to fund its acquisitions (including spectrum licenses), construction costs, operating expenses and share repurchases. Cash flows may fluctuate from quarter to quarter and year to year due to seasonality, the timing of acquisitions and divestitures, capital expenditures and other factors. The following discussion summarizes TDS' cash flow activities for the six months ended June 30, 2018 and 2017.

2018 Commentary

TDS' Cash, cash equivalents and restricted cash increased $255 million in 2018. Net cash provided by operating activities was $463 million in 2018 due to net income of $101 million plus non-cash items of $442 million and distributions received from unconsolidated entities of $70 million, including $33 million in distributions from the LA Partnership. This was partially offset by changes in working capital items which decreased net cash by $150 million. The working capital changes were primarily influenced by an increase in equipment installment plan receivables and the timing of annual employee bonus payments and vendor and tax payments, partially offset by collections of customer and agent receivables. The adoption of ASU 2014-09 caused fluctuations in working capital items in the Consolidated Balance Sheet; however, it did not have an impact on total Net cash provided by operating activities.

Cash flows used for investing activities were $161 million. Cash paid in 2018 for additions to property, plant and equipment totaled $275 million. Cash paid for acquisitions and licenses was $10 million. This was partially offset by cash received from the redemption of short-term Treasury bills of $100 million and Cash received from divestitures and exchanges of $21 million.

Cash flows used for financing activities were $47 million, reflecting ordinary activity such as the payment of dividends and the scheduled repayments of debt.

2017 Commentary

TDS' Cash, cash equivalents and restricted cash decreased $109 million in 2017. Net cash provided by operating activities was $358 million in 2017, due to net income of $55 million plus non-cash items of $398 million and distributions received from unconsolidated entities of $65 million, including $30 million in distributions from the LA Partnership. This was partially offset by changes in working capital items which decreased cash by $160 million. The working capital changes were due to a $107 million increase in equipment installment plan receivables and a $59 million decrease in accounts payable.

The net cash provided by operating activities was offset by Cash flows used for investing activities of $424 million. Cash paid for additions to property, plant and equipment in 2017 totaled $242 million. Cash paid for acquisitions and licenses was $200 million which included the remaining $186 million due to the FCC for licenses U.S. Cellular won in Auction 1002. This was partially offset by Cash received from divestitures and exchanges of $17 million.

Cash flows used for financing activities were $43 million in 2017, reflecting ordinary activity such as the payment of dividends and the scheduled repayments of debt.

Consolidated Balance Sheet Analysis

The following discussion addresses certain captions in the consolidated balance sheet and changes therein. This discussion is intended to highlight the significant changes and is not intended to fully reconcile the changes. Changes in financial condition during 2018 were as follows:

Cash and cash equivalents

See the Consolidated Cash Flow Analysis above for a discussion of cash and cash equivalents.

Short-term investments

Short-term investments decreased $100 million due to the maturity of U.S. Treasury Bills with original maturities of six months.

Other assets and deferred charges

Other assets and deferred charges increased $164 million due primarily to the creation of contract assets and contract cost assets as a result of the adoption of ASU 2014-09. See Note 2 — Revenue Recognition in the Notes to Consolidated Financial Statements for additional information.

Accounts payable

Accounts payable decreased $72 million due primarily to reduction of expenses as well as payment timing differences.

Customer deposits and deferred revenues

Customer deposits and deferred revenues decreased $58 million due primarily to the reclassification of certain deferred revenues to Other current assets to reflect the net contract position for each customer contract on the Consolidated Balance Sheet as required by ASU 2014-09, which was adopted on January 1, 2018. See Note 2 — Revenue Recognition in the Notes to Consolidated Financial Statements for additional information.

Accrued compensation

Accrued compensation decreased $42 million due primarily to employee bonus payments in March 2018.

Deferred income tax liability, net

Deferred income tax liability, net, increased $84 million due primarily to the adoption of ASU 2014-09 increasing the net basis of assets on a U.S. GAAP basis without a corresponding increase in tax basis, as well as the impact of full expensing of qualified property additions following the enactment of the Tax Act.

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Supplemental Information Relating to Non-GAAP Financial Measures

TDS sometimes uses information derived from consolidated financial information but not presented in its financial statements prepared in accordance with U.S. GAAP to evaluate the performance of its business. Certain of these measures are considered “non-GAAP financial measures” under U.S. Securities and Exchange Commission Rules. Specifically, TDS has referred to the following measures in this Form 10-Q Report:

- EBITDA
- Adjusted EBITDA
- Adjusted OIBDA
- Free cash flow
- Postpaid ABPU
- Postpaid ABPA

Following are explanations of each of these measures.

EBITDA, Adjusted EBITDA and Adjusted OIBDA

EBITDA, Adjusted EBITDA and Adjusted OIBDA are defined as net income adjusted for the items set forth in the reconciliation below. EBITDA, Adjusted EBITDA and Adjusted OIBDA are not measures of financial performance under GAAP and should not be considered as alternatives to Net income or Cash flows from operating activities, as indicators of cash flows or as measures of liquidity. TDS does not intend to imply that any such items set forth in the reconciliation below are non-recurring, infrequent or unusual; such items may occur in the future.

Adjusted EBITDA is a segment measure reported to the chief operating decision maker for purposes of making decisions about allocating resources to the segments and assessing their performance. See Note 12 — Business Segment Information in the Notes to Consolidated Financial Statements for additional information.

Management uses Adjusted EBITDA and Adjusted OIBDA as measurements of profitability and, therefore, reconciliations to applicable GAAP income measures are deemed appropriate. Management believes Adjusted EBITDA and Adjusted OIBDA are useful measures of TDS’ operating results before significant recurring non-cash charges, gains and losses, and other items as presented below as they provide additional relevant and useful information to investors and other users of TDS’ financial data in evaluating the effectiveness of its operations and underlying business trends in a manner that is consistent with management’s evaluation of business performance. Adjusted EBITDA shows adjusted earnings before interest, taxes, depreciation, amortization and accretion, and gains and losses, while Adjusted OIBDA reduces this measure further to exclude Equity in earnings of unconsolidated entities and Interest and dividend income in order to more effectively show the performance of operating activities excluding investment activities. The following table reconciles EBITDA, Adjusted EBITDA and Adjusted OIBDA to the corresponding GAAP measure, Net income or Income (loss) before income taxes. Income tax expense is not provided at the individual segment level for Wireline and Cable. TDS calculates income tax expense (benefit) for TDS Telecom in total.

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TDS CONSOLIDATED (Dollars in millions)	Three Months Ended June 30, 2018[1]	2017	Six Months Ended June 30, 2018[1]	2017
Net income (GAAP)	$44	$12	$101	$55
Add back:				
Income tax expense	21	10	45	44
Interest expense	43	43	86	85
Depreciation, amortization and accretion	220	211	441	422
EBITDA (Non-GAAP)	328	276	673	606
Add back or deduct:				
(Gain) loss on asset disposals, net	2	6	3	10
(Gain) loss on license sales and exchanges, net	(11)	(2)	(17)	(19)
Adjusted EBITDA (Non-GAAP)	319	280	659	597
Deduct:				
Equity in earnings of unconsolidated entities	40	33	78	65
Interest and dividend income	6	4	11	8
Other, net	1	1	2	2
Adjusted OIBDA (Non-GAAP)	272	242	568	522
Deduct:				
Depreciation, amortization and accretion	220	211	441	422
	2	6	3	10

(Gain) loss on asset disposals, net				
(Gain) loss on license sales and exchanges, net	(11)	(2)	(17)	(19)
Operating income (GAAP)	$61	$27	$141	$109

U.S. CELLULAR	Three Months Ended June 30, 2018[1]	2017	Six Months Ended June 30, 2018[1]	2017
(Dollars in millions)				
Net income (GAAP)	$52	$12	$107	$40
Add back:				
Income tax expense	18	–	40	33
Interest expense	29	28	58	56
Depreciation, amortization and accretion	159	155	317	307
EBITDA (Non-GAAP)	258	195	522	436
Add back or deduct:				
(Gain) loss on asset disposals, net	1	5	2	9
(Gain) loss on license sales and exchanges, net	(11)	(2)	(17)	(19)
Adjusted EBITDA (Non-GAAP)	248	198	507	426
Deduct:				
Equity in earnings of unconsolidated entities	40	33	78	66
Interest and dividend income	3	2	7	5
Other, net	–	–	(1)	(1)
Adjusted OIBDA (Non-GAAP)	205	163	423	356

Deduct:				
Depreciation, amortization and accretion	159	155	317	307
(Gain) loss on asset disposals, net	1	5	2	9
(Gain) loss on license sales and exchanges, net	(11)	(2)	(17)	(19)
Operating income (GAAP)	$56	$5	$121	$59

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TDS TELECOM	Three Months Ended June 30, 2018[1]	2017	Six Months Ended June 30, 2018[1]	2017
(Dollars in millions)				
Net income (GAAP)	$16	$20	$37	$40
Add back or deduct:				
Income tax expense	5	13	12	25
Interest expense	–	–	(1)	–
Depreciation, amortization and accretion	53	48	107	97
EBITDA (Non-GAAP)	74	81	155	162
Add back or deduct:				
(Gain) loss on asset disposals, net	1	1	1	1
Adjusted EBITDA (Non-GAAP)	75	82	156	164
Deduct:				
Interest and dividend income	2	1	3	2
Other, net	1	1	1	2
Adjusted OIBDA (Non-GAAP)	73	80	152	160
Deduct:				
Depreciation, amortization and accretion	53	48	107	97
(Gain) loss on asset disposals, net	1	1	1	1
Operating income (GAAP)	$18	$31	$43	$61

WIRELINE	Three Months Ended June 30, 2018[1]	2017	Six Months Ended June 30, 2018[1]	2017
(Dollars in millions)				
Income before income taxes (GAAP)	$24	$30	$52	$60
Add back or deduct:				
Interest expense	–	–	(1)	–
Depreciation, amortization and accretion	36	37	72	76
EBITDA (Non-GAAP)	59	67	124	136
Add back or deduct:				
(Gain) loss on asset disposals, net	1	–	1	1
Adjusted EBITDA (Non-GAAP)	59	67	124	137
Deduct:				
Interest and dividend income	2	1	3	2
Other, net	1	1	1	2
Adjusted OIBDA (Non-GAAP)	57	65	120	133
Deduct:				
Depreciation, amortization and accretion	36	37	72	76
(Gain) loss on asset disposals, net	1	–	1	1
Operating income (GAAP)	$21	$28	$47	$56

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CABLE	Three Months Ended June 30, 2018[1]	2017	Six Months Ended June 30, 2018[1]	2017
(Dollars in millions)				
Income (loss) before income taxes (GAAP)	$(2)	$3	$(4)	$5
Add back:				
Depreciation, amortization and accretion	18	11	35	21
EBITDA (Non-GAAP)	15	14	32	26
Add back or deduct:				
(Gain) loss on asset disposals, net	–	–	1	1
Adjusted EBITDA (Non-GAAP)	16	14	32	27
Deduct:				
Interest and dividend income	–	–	–	–
Adjusted OIBDA (Non-GAAP)	16	14	32	27
Deduct:				
Depreciation, amortization and accretion	18	11	35	21
(Gain) loss on asset disposals, net	–	–	1	1
Operating income (loss) (GAAP)	$(3)	$3	$(4)	$5

Numbers may not foot due to rounding.

1 As of January 1, 2018, TDS adopted ASU 2014-09 using

a modified retrospective approach. Under this method, the new accounting standard is applied only to the most recent period presented. See Note 2 — Revenue Recognition in the Notes to Consolidated Financial Statements for additional information.

Free Cash Flow

The following table presents Free cash flow. Management uses Free cash flow as a liquidity measure and it is defined as Cash flows from operating activities less Cash paid for additions to property, plant and equipment. Free cash flow is a non-GAAP financial measure which TDS believes may be useful to investors and other users of its financial information in evaluating liquidity, specifically, the amount of net cash generated by business operations after deducting Cash paid for additions to property, plant and equipment.

	Six Months Ended June 30,	
	2018	2017
(Dollars in millions)		
Cash flows from operating activities (GAAP)	$463	$358
Less: Cash paid for additions to property, plant and equipment	275	242
Free cash flow (Non-GAAP)	$188	$116

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Postpaid ABPU and Postpaid ABPA

U.S. Cellular presents Postpaid ABPU and Postpaid ABPA to reflect estimated cash collections from postpaid customer billings for both service and equipment resulting from the increased adoption of equipment installment plans. Postpaid ABPU and Postpaid ABPA, as previously defined, are non-GAAP financial measures which U.S. Cellular believes are useful to investors and other users of its financial information in showing trends in both service and equipment and product sales revenues received from customers.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018[1]	2017	2018[1]	2017
(Dollars and connection counts in millions)				
Calculation of Postpaid ARPU				
Postpaid service revenues	$600	$597	$1,198	$1,205
Average number of postpaid connections	4.47	4.47	4.49	4.46
Number of months in period	3	3	6	6
Postpaid ARPU (GAAP metric)	$44.74	$44.60	$44.54	$45.00
Calculation of Postpaid ABPU				
Postpaid service revenues	$600	$597	$1,198	$1,205
Equipment installment plan billings	174	142	347	281
Total billings to postpaid connections	$774	$739	$1,545	$1,486
Average number of postpaid connections	4.47	4.47	4.49	4.46
Number of months in period	3	3	6	6
Postpaid ABPU	$57.75	$55.19	$57.42	$55.49

(Non-GAAP metric)				
Calculation of Postpaid ARPA				
Postpaid service revenues	$600	$597	$1,198	$1,205
Average number of postpaid accounts	1.69	1.66	1.69	1.67
Number of months in period	3	3	6	6
Postpaid ARPA (GAAP metric)	$118.57	$119.73	$118.38	$120.46
Calculation of Postpaid ABPA				
Postpaid service revenues	$600	$597	$1,198	$1,205
Equipment installment plan billings	174	142	347	281
Total billings to postpaid accounts	$774	$739	$1,545	$1,486
Average number of postpaid accounts	1.69	1.66	1.69	1.67
Number of months in period	3	3	6	6
Postpaid ABPA (Non-GAAP metric)	$153.03	$148.15	$152.63	$148.54

1 As of January 1, 2018, U.S. Cellular adopted ASU 2014-09 using a modified retrospective approach. Under this method, the new accounting standard is applied only to the most recent period presented. See Note 2 — Revenue Recognition in the Notes to Consolidated Financial Statements for additional information.

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Application of Critical Accounting Policies and Estimates

TDS prepares its consolidated financial statements in accordance with GAAP. TDS' significant accounting policies are discussed in detail in Note 1 — Summary of Significant Accounting Policies and Recent Accounting Pronouncements in the Notes to Consolidated Financial Statements and TDS' Application of Critical Accounting Policies and Estimates is discussed in detail in Management's Discussion and Analysis of Financial Condition and Results of Operations, both of which are included in TDS' Form 10-K for the year ended December 31, 2017.

Franchise Rights

Effective January 1, 2018, TDS prospectively changed its estimated useful life for cable video franchise rights from indefinite-lived to 15 years due primarily to the effects of increasing competition and advancements in technology for delivering and consuming video programming. Commensurate with this change, TDS reviewed its cable video franchise rights for impairment, and noted that no impairment existed as of January 1, 2018. See Note 1 — Basis of Presentation in the Notes to Consolidated Financial Statements for additional information regarding the impact of this change in estimate.

Recent Accounting Pronouncements

See Note 1 — Basis of Presentation in the Notes to Consolidated Financial Statements for information on recent accounting pronouncements.

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Regulatory Matters

FCC Mobility Fund Phase II Order

In October 2011, the FCC adopted its USF/Intercarrier Compensation Transformation Order (USF Order). Pursuant to this order, U.S. Cellular's then current Federal USF support was to be phased down at the rate of 20% per year beginning July 1, 2012. The USF Order contemplated the establishment of a new mobile USF program and provided for a pause in the phase down if that program was not timely implemented by July 2014. The Phase II Connect America Mobility Fund (MF2) was not operational as of July 2014 and, therefore, as provided by the USF Order, the phase down was suspended at 60% of the baseline amount until such time as the FCC had taken steps to establish the MF2. In February 2017, the FCC adopted the MF2 Order addressing the framework for MF2 and the resumption of the phase down. The MF2 Order establishes a support fund of $453 million annually for ten years to be distributed through a market-based, multi-round reverse auction. For areas that receive support under MF2, legacy support to MF2 Auction winners will terminate and be replaced with MF2 support effective the first day of the month following release of the public notice closing the auction. Legacy support in areas where the legacy support recipient is not an MF2 winner will be subject to phase down over two years unless there is no winner in a particular census block, in which case it will be continued for one legacy support recipient only. The MF2 Order further states that the phase down of legacy support for areas that were not eligible for support under MF2 will commence on the first day of the month following the completion of the auction and will conclude two years later.

In August 2017, the FCC adopted the MF2 Challenge Process Order, which laid out procedures for establishing areas that would be eligible for support under the MF2 program. This will include a collection process to be followed by a challenge window, a challenge response window, and finally adjudication of any coverage disputes. In September 2017, the FCC issued a public notice initiating the collection of 4G LTE coverage data. Responses submitting the collected data were due on January 4, 2018.

On February 27, 2018, the FCC issued public notices providing detailed challenge procedures and a schedule for the challenge process. Pursuant to these notices, the challenge window began on March 29, 2018, and would close on August 27, 2018. However, in a May 30, 2018 letter to Senator Roger Wicker, FCC Chairman Ajit Pai indicated his intent to extend the challenge window by ninety days, which would close it on November 25, 2018. No earlier than thirty days after the FCC processes the challenges, it will open a thirty-day challenge response window. Following the challenge response window, the FCC will adjudicate any disputes. This entire process must be completed before an auction can be commenced.

U.S. Cellular cannot predict at this time when the MF2 auction will occur, when the phase down period for its existing legacy support from the Federal USF will commence, or whether the MF2 auction will provide opportunities to U.S. Cellular to offset any loss in existing support. U.S. Cellular currently expects that its legacy support will continue at the 2017 level through 2018.

FCC Connect America Fund

In March 2018, the FCC approved an order authorizing additional funding for companies that elected Alternative Connect America Model (A-CAM) support. On May 7, 2018, as directed within the order, the Wireline Competition Bureau (the Bureau) released a public notice offering TDS Telecom an additional $3 million per year for 10 years in support amounts along with corresponding buildout obligations which TDS Telecom accepted. On July 20, 2018 the Bureau authorized and directed the Universal Service Administrative Company to obligate and disburse the annual support amounts over a 10-year term for each carrier that accepted the revised offer of A-CAM support. The additional funding is retroactive to January 1, 2017, the original effective date of the program.

Millimeter Wave Spectrum Auctions

At its open meeting on August 2, 2018, the FCC adopted a public notice establishing procedures for two auctions of spectrum licenses in the 28 GHz and 24 GHz bands. The 28GHz auction (Auction 101) will commence on November 14, 2018, and will offer two 425 MHz licenses in the 28 GHz band over portions of the United States that do not have incumbent licensees. Following the completion of Auction 101, the FCC will commence the 24 GHz auction (Auction 102), which will offer up to seven 100 MHz licenses in the 24 GHz band in Partial Economic Areas covering most of the United States. Applications for both auctions are due on September 18, 2018. Upfront payments for Auction 101 are due on October 23, 2018. The upfront payment deadline for Auction 102 will be announced at a later date, but will follow the completion of Auction 101.

At the same meeting on August 2, 2018, the FCC adopted a Further Notice of Proposed Rulemaking in preparation for an additional Millimeter Wave auction offering licenses in the 37, 39 and 47 GHz bands. FCC statements indicate plans to hold this auction in the second half of 2019.

The Connect America Fund Phase II Auction

On July 24, 2018, bidding began in Auction 903, a reverse auction to award universal service support under the Connect America Fund Phase II program. This auction will award support in markets where support was previously declined by the price-cap incumbent local exchange carriers. On March 30, 2018, U.S. Cellular filed an application to participate in Auction 903, and on June 25, 2018, the FCC announced U.S. Cellular is a qualified bidder.

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Private Securities Litigation Reform Act of 1995

Safe Harbor Cautionary Statement

This Form 10-Q, including exhibits, contains statements that are not based on historical facts and represent forward-looking statements, as this term is defined in the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, that address activities, events or developments that TDS intends, expects, projects, believes, estimates, plans or anticipates will or may occur in the future are forward-looking statements. The words "believes," "anticipates," "estimates," "expects," "plans," "intends," "projects" and similar expressions intended to identify these forward-looking statements, but are not the exclusive means of identifying them. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, events or developments to be significantly different from any future results, events or developments expressed or implied by such forward-looking statements. Such risks, uncertainties and other factors include those set forth below, as more fully described under "Risk Factors" in TDS' Form 10-K for the year ended December 31, 2017. Each of the following risks could have a material adverse effect on TDS' business, financial condition or results of operations. However, such factors are not necessarily all of the important factors that could cause actual results, performance or achievements to differ materially from those expressed in, or implied by, the forward-looking statements contained in this document. Other unknown or unpredictable factors also could have material adverse effects on future results, performance or achievements. TDS undertakes no obligation to update publicly any forward-looking statements whether as a result of new information, future events or otherwise. You should carefully consider the Risk Factors in TDS' Form 10-K for the year ended December 31, 2017, the following factors and other information contained in, or incorporated by reference into, this Form 10-Q to understand the material risks relating to TDS' business, financial condition or results of operations.

- Intense competition in the markets in which TDS operates could adversely affect TDS' revenues or increase its costs to compete.
- A failure by TDS to successfully execute its business strategy (including planned acquisitions, spectrum acquisitions, divestitures and exchanges) or allocate resources or capital could have an adverse effect on TDS' business, financial condition or results of operations.
- Uncertainty in TDS' future cash flow and liquidity or in the ability to access capital, deterioration in the capital markets, other changes in TDS' performance or market conditions, changes in TDS' credit ratings or other factors could limit or restrict the availability of financing on terms and prices acceptable to TDS, which could require TDS to reduce its construction, development or acquisition programs, reduce the acquisition of spectrum licenses, and/or reduce or cease share repurchases and/or the payment of dividends.
- TDS has a significant amount of indebtedness which could adversely affect its financial performance and in turn adversely affect its ability to make payments on its indebtedness, comply with terms of debt covenants and incur additional debt.
- Changes in roaming practices or other factors could cause TDS' roaming revenues to decline from current levels, roaming expenses to increase from current levels and/or impact TDS' ability to service its customers in geographic areas where TDS does not have its own network, which could have an adverse effect on TDS' business, financial condition or results of operations.
- A failure by TDS to obtain access to adequate radio spectrum to meet current or anticipated future needs and/or to accurately predict future needs for radio spectrum could have an adverse effect on TDS' business,

financial condition or results of operations.

- ♦ To the extent conducted by the FCC, TDS may participate in FCC auctions for additional spectrum or for funding in certain Universal Service programs in the future directly or indirectly and, during certain periods, will be subject to the FCC's anti-collusion rules, which could have an adverse effect on TDS.
- ♦ Failure by TDS to timely or fully comply with any existing applicable legislative and/or regulatory requirements or changes thereto could adversely affect TDS' business, financial condition or results of operations.
- ♦ An inability to attract people of outstanding potential, to develop their potential through education and assignments, and to retain them by keeping them engaged, challenged and properly rewarded could have an adverse effect on TDS' business, financial condition or results of operations.
- ♦ TDS' assets and revenue are concentrated primarily in the U.S. telecommunications industry. Consequently, its operating results may fluctuate based on factors related primarily to conditions in this industry.
- ♦ TDS' smaller scale relative to larger competitors that may have greater financial and other resources than TDS could cause TDS to be unable to compete successfully, which could adversely affect its business, financial condition or results of operations.
- ♦ Changes in various business factors, including changes in demand, customer preferences and perceptions, price competition, churn from customer switching activity and other factors, could have an adverse effect on TDS' business, financial condition or results of operations.

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- ♦ Advances or changes in technology could render certain technologies used by TDS obsolete, could put TDS at a competitive disadvantage, could reduce TDS' revenues or could increase its costs of doing business.
- ♦ Complexities associated with deploying new technologies present substantial risk and TDS' investments in unproven technologies may not produce the benefits that TDS expects.
- ♦ TDS receives regulatory support and is subject to numerous surcharges and fees from federal, state and local governments, and the applicability and the amount of the support and fees are subject to great uncertainty, which could have an adverse effect on TDS' business, financial condition or results of operations.
- ♦ Performance under device purchase agreements could have a material adverse impact on TDS' business, financial condition or results of operations.
- ♦ Changes in TDS' enterprise value, changes in the market supply or demand for wireless licenses, wireline or cable markets or IT service providers, adverse developments in the businesses or the industries in which TDS is involved and/or other factors could require TDS to recognize impairments in the carrying value of its licenses, goodwill, franchise rights and/or physical assets or require re-evaluation of the indefinite-lived nature of such assets.
- ♦ Costs, integration problems or other factors associated with acquisitions, divestitures or exchanges of properties or licenses and/or expansion of TDS' businesses could have an adverse effect on TDS' business, financial condition or results of operations.
- ♦ A failure by TDS to complete significant network construction and systems implementation activities as part of its plans to improve the quality, coverage, capabilities and capacity of its network, support and other systems and infrastructure could have an adverse effect on its operations.
- ♦ Difficulties involving third parties with which TDS does business, including changes in TDS' relationships with or financial or operational difficulties of key suppliers or independent agents and third party national retailers who market TDS' services, could adversely affect TDS' business, financial condition or results of operations.
- ♦ TDS has significant investments in entities that it does not control. Losses in the value of such investments could have an adverse effect on TDS' financial condition or results of operations.
- ♦ A failure by TDS to maintain flexible and capable telecommunication networks or information technology, or a material disruption thereof, could have an adverse effect on TDS' business, financial condition or results of operations.
- ♦ TDS has experienced and, in the future, expects to experience cyber-attacks or other breaches of network or information technology security of varying degrees on a regular basis, which could have an adverse effect on TDS' business, financial condition or results of operations.
- ♦ The market price of TDS' Common Shares is subject to fluctuations due to a variety of factors.
- ♦ Changes in facts or circumstances, including new or additional information, could require TDS to record charges relating to adjustments of amounts reflected in the financial statements, which could have an adverse effect on TDS' business, financial condition or results of operations.
- ♦ Disruption in credit or other financial markets, a deterioration of U.S. or global economic conditions or other events could, among other things, impede TDS' access to or increase the cost of financing its operating and investment activities and/or result in reduced revenues and lower operating income and cash flows, which would have an adverse effect on TDS' business, financial condition or results of operations.
- ♦ Settlements, judgments, restraints on its current or future manner of doing business and/or legal costs resulting from pending and future litigation could have an adverse effect on TDS' business, financial condition or results of operations.
- ♦ The possible development of adverse precedent in litigation or conclusions in professional studies to the effect that radio frequency emissions from wireless devices and/or cell sites cause harmful health consequences,

including cancer or tumors, or may interfere with various electronic medical devices such as pacemakers, could have an adverse effect on TDS' wireless business, financial condition or results of operations.

- ♦ Claims of infringement of intellectual property and proprietary rights of others, primarily involving patent infringement claims, could prevent TDS from using necessary technology to provide products or services or subject TDS to expensive intellectual property litigation or monetary penalties, which could have an adverse effect on TDS' business, financial condition or results of operations.
- ♦ Certain matters, such as control by the TDS Voting Trust and provisions in the TDS Restated Certificate of Incorporation, may serve to discourage or make more difficult a change in control of TDS.

- ♦ Any of the foregoing events or other events could cause revenues, earnings, capital expenditures and/or any other financial or statistical information to vary from TDS' forward-looking estimates by a material amount.

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Risk Factors

In addition to the information set forth in this Form 10-Q, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in TDS' Annual Report on Form 10-K for the year ended December 31, 2017, which could materially affect TDS' business, financial condition or future results. The risks described in this Form 10-Q and the Form 10-K for the year ended December 31, 2017, may not be the only risks that could affect TDS. Additional unidentified or unrecognized risks and uncertainties could materially adversely affect TDS' business, financial condition and/or operating results. Subject to the foregoing, TDS has not identified for disclosure any material changes to the risk factors as previously disclosed in TDS' Annual Report on Form 10-K for the year ended December 31, 2017.

Quantitative and Qualitative Disclosures about Market Risk

Market Risk

Refer to the disclosure under Market Risk in TDS' Form 10-K for the year ended December 31, 2017, for additional information, including information regarding required principal payments and the weighted average interest rates related to TDS' Long-term debt. There have been no material changes to such information since December 31, 2017.

See Note 3 — Fair Value Measurements in the Notes to Consolidated Financial Statements for additional information related to the fair value of TDS' Long-term debt as of June 30, 2018.

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Financial Statements

Telephone and Data Systems, Inc.

Consolidated Statement of Operations

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
(Dollars and shares in millions, except per share amounts)				
Operating revenues				
Service	$993	$992	$1,970	$1,989
Equipment and product sales	262	255	510	496
Total operating revenues	1,255	1,247	2,480	2,485
Operating expenses				
Cost of services (excluding Depreciation, amortization and accretion reported below)	300	298	587	580
Cost of equipment and products	266	287	512	557
Selling, general and administrative	417	420	813	826
Depreciation, amortization and	220	211	441	422

accretion				
(Gain) loss on asset disposals, net	2	6	3	10
(Gain) loss on license sales and exchanges, net	(11)	(2)	(17)	(19)
Total operating expenses	1,194	1,220	2,339	2,376
Operating income	61	27	141	109
Investment and other income (expense)				
Equity in earnings of unconsolidated entities	40	33	78	65
Interest and dividend income	6	4	11	8
Interest expense	(43)	(43)	(86)	(85)
Other, net	1	1	2	2
Total investment and other income (expense)	4	(5)	5	(10)
Income before income taxes	65	22	146	99
Income tax expense	21	10	45	44
Net income	44	12	101	55
Less: Net income attributable to noncontrolling interests, net of tax	11	2	29	8
Net income attributable to TDS shareholders	33	10	72	47
TDS Preferred dividend requirement	–	–	–	–
Net income available to TDS common shareholders	$33	$10	$72	$47

Basic weighted average shares outstanding	112	111	112	110
Basic earnings per share available to TDS common shareholders	$0.30	$0.09	$0.65	$0.43
Diluted weighted average shares outstanding	113	112	113	112
Diluted earnings per share available to TDS common shareholders	$0.29	$0.09	$0.63	$0.42
Dividends per share to TDS shareholders	$0.160	$0.155	$0.320	$0.310

The accompanying notes are an integral part of these consolidated financial statements.

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Telephone and Data Systems, Inc.

Consolidated Statement of Comprehensive Income

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
(Dollars in millions)				
Net income	$44	$12	$101	$55
Net change in accumulated other comprehensive income				
Change related to retirement plan				
Amounts included in net periodic benefit cost for the period				
Amortization of prior service cost	–	–	(1)	(1)
Comprehensive income	44	12	100	54
Less: Net income attributable to noncontrolling interests, net of tax	11	2	29	8
Comprehensive income attributable to TDS shareholders	$33	$10	$71	$46

The accompanying notes are an integral part of these consolidated financial statements.

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Telephone and Data Systems, Inc.

Consolidated Statement of Cash Flows

(Unaudited)

	Six Months Ended June 30,	
	2018	2017
(Dollars in millions)		
Cash flows from operating activities		
Net income	$101	$55
Add (deduct) adjustments to reconcile net income to net cash flows from operating activities		
Depreciation, amortization and accretion	441	422
Bad debts expense	43	49
Stock-based compensation expense	23	22
Deferred income taxes, net	25	(22)
Equity in earnings of unconsolidated entities	(78)	(65)
Distributions from unconsolidated entities	70	65
(Gain) loss on asset disposals, net	3	10
(Gain) loss on license sales and exchanges, net	(17)	(19)
Noncash interest	2	1
Changes in assets and liabilities from operations		
Accounts receivable	51	5
Equipment installment plans receivable	(47)	(107)
Inventory	(8)	2
Accounts payable	(50)	(59)
Customer deposits and deferred revenues	(25)	(10)
Accrued taxes	(5)	53
Other assets and liabilities	(66)	(44)
Net cash provided by operating activities	463	358
Cash flows from investing activities		
Cash paid for additions to property, plant and equipment	(275)	(242)
Cash paid for acquisitions and licenses	(10)	(200)
Cash received for investments	100	–
Cash received from divestitures and exchanges	21	17

Other investing activities	3	1
Net cash used in investing activities	(161)	(424)
Cash flows from financing activities		
Repayment of long-term debt	(10)	(6)
TDS Common Shares reissued for benefit plans, net of tax payments	7	(1)
Repurchase of TDS Preferred Shares	–	(1)
Dividends paid to TDS shareholders	(36)	(34)
Payment of debt issuance costs	(1)	–
Distributions to noncontrolling interests	(4)	(2)
Other financing activities	(3)	1
Net cash used in financing activities	(47)	(43)
Net increase (decrease) in cash, cash equivalents and restricted cash	255	(109)
Cash, cash equivalents and restricted cash		
Beginning of period	622	904
End of period	$877	$795

The accompanying notes are an integral part of these consolidated financial statements.

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Telephone and Data Systems, Inc.

Consolidated Balance Sheet — Assets

(Unaudited)

	June 30, 2018	December 31, 2017
(Dollars in millions)		
Current assets		
Cash and cash equivalents	$ 873	$ 619
Short-term investments	–	100
Accounts receivable		
Customers and agents, less allowances of $65 and $61, respectively	886	861
Other, less allowances of $2 and $2, respectively	101	100
Inventory, net	153	145
Prepaid expenses	103	112
Income taxes receivable	1	2
Other current assets	43	27
Total current assets	2,160	1,966
Assets held for sale	1	10
Licenses	2,240	2,232
Goodwill	509	509
Other intangible assets, net of accumulated amortization of $155 and $142, respectively	266	279
Investments in unconsolidated entities	477	453
Property, plant and equipment		
In service and under construction	11,754	11,742
Less: Accumulated depreciation and amortization	8,495	8,318
Property, plant and equipment, net	3,259	3,424

Other assets and deferred charges	586	422
Total assets1	$9,498	$9,295

The accompanying notes are an integral part of these consolidated financial statements.

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Telephone and Data Systems, Inc.

Consolidated Balance Sheet — Liabilities and Equity

(Unaudited)

(Dollars and shares in millions, except per share amounts)	June 30, 2018	December 31, 2017
Current liabilities		
Current portion of long-term debt	$20	$ 20
Accounts payable	296	368
Customer deposits and deferred revenues	165	223
Accrued interest	12	11
Accrued taxes	54	64
Accrued compensation	84	126
Other current liabilities	98	106
Total current liabilities	729	918
Deferred liabilities and credits		
Deferred income tax liability, net	636	552
Other deferred liabilities and credits	523	495
Long-term debt, net	2,427	2,437
Commitments and contingencies		
Noncontrolling interests with redemption features	11	1
Equity		
TDS shareholders' equity		
Series A Common and Common Shares		
Authorized 290 shares (25 Series A Common and 265 Common Shares)		
Issued 133 shares (7 Series A Common and 126 Common Shares)		
Outstanding 112 shares (7 Series A Common and 105 Common Shares) and 111 shares (7 Series A Common and 104 Common Shares), respectively		
Par Value ($.01 per share)	1	1
Capital in excess of par value	2,418	2,413
Treasury shares, at cost, 21 and 22 Common Shares, respectively	(624)	(669)
Accumulated other comprehensive loss	(3)	(1)
Retained earnings	2,692	2,525

Total TDS shareholders' equity	4,484	4,269
Noncontrolling interests	688	623
Total equity	5,172	4,892
Total liabilities and equity1	$9,498	$ 9,295

The accompanying notes are an integral part of these consolidated financial statements.

1 The consolidated total assets as of June 30, 2018 and December 31, 2017, include assets held by consolidated variable interest entities (VIEs) of $793 million and $765 million, respectively, which are not available to be used to settle the obligations of TDS. The consolidated total liabilities as of June 30, 2018 and December 31, 2017, include certain liabilities of consolidated VIEs of $17 million and $21 million, respectively, for which the creditors of the VIEs have no recourse to the general credit of TDS. See Note 10 — Variable Interest Entities for additional information.

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Telephone and Data Systems, Inc.

Consolidated Statement of Changes in Equity

(Unaudited)

	TDS Shareholders							
(Dollars in millions)	Series A Common and Common shares	Capital in excess of par value	Treasury shares	Accumulated other comprehensive income (loss)	Retained earnings	Total TDS shareholders' equity	Noncontrolling interests	Total equity
December 31, 2017	$ 1	$ 2,413	$ (669)	$ (1)	$ 2,525	$ 4,269	$ 623	$ 4,892
Cumulative effect of accounting changes	–	–	–	(1)	163	162	31	193
Net income attributable to TDS shareholders	–	–	–	–	72	72	–	72
Net income attributable	–	–	–	–	–	–	16	16

to noncontrolling interests								
classified as equity								
Other comprehensive loss	–	–	–	(1)	–	(1)	–	(1)
TDS Common and Series A	–	–	–	–	(36)	(36)	–	(36)
Common share dividends								
Dividend reinvestment plan	–	–	13	–	(7)	6	–	6
Incentive and compensation	–	–	32	–	(25)	7	–	7
plans								
Adjust investment in								
subsidiaries for repurchases,	–	(1)	–	–	–	(1)	19	18
issuances and other								
compensation plans								
Stock-based compensation	–	6	–	–	–	6	–	6

awards								
Distributions to noncontrolling interests	–	–	–	–	–	–	(1)	(1)
June 30, 2018	$ 1	$ 2,418	$ (624)	$ (3)	$ 2,692	$ 4,484	$ 688	$ 5,172

The accompanying notes are an integral part of these consolidated financial statements.

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Telephone and Data Systems, Inc.

Consolidated Statement of Changes in Equity

(Unaudited)

	TDS Shareholders								
(Dollars in millions)	Series A Common and Common shares	Capital in excess of par value	Treasury shares	Accumulated other comprehensive income (loss)	Retained earnings	Total TDS shareholders' equity	Preferred shares	Noncontrolling interests	Total equity
December 31, 2016	$ 1	$ 2,386	$ (698)	$ 1	$ 2,454	$ 4,144	$ 1	$ 605	$ 4,750
Net income attributable to TDS shareholders	–	–	–	–	47	47	–	–	47
Net income attributable to noncontrolling interests classified as	–	–	–	–	–	–	–	8	8

equity									
Other comprehensive loss	–	–	–	(1)	–	(1)	–	–	(1)
TDS Common and Series A Common share dividends	–	–	–	–	(34)	(34)	–	–	(34)
Redemption of Preferred shares	–	–		–	–	–	(1)	–	(1)
Dividend reinvestment plan	–	–	5	–	–	5	–	–	5
Incentive and compensation plans	–	–	9	–	(10)	(1)	–	–	(1)
Adjust investment in subsidiaries for repurchases, issuances and other compensation plans	–	–	–	–	–	–	–	14	14
Stock-based compensation awards	–	7	–	–	–	7	–	–	7

Distributions to noncontrolling interests	–	–	–	–	–	–	–	(2)	(2)
June 30, 2017	$ 1	$ 2,393	$ (684)	$ –	$ 2,457	$ 4,167	$ –	$ 625	$ 4,792

The accompanying notes are an integral part of these consolidated financial statements.

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Telephone and Data Systems, Inc.

Notes to Consolidated Financial Statements

Note 1 Basis of Presentation

The accounting policies of Telephone and Data Systems, Inc. (TDS) conform to accounting principles generally accepted in the United States of America (GAAP) as set forth in the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). The consolidated financial statements include the accounts of TDS and subsidiaries in which it has a controlling financial interest, including TDS' 83%-owned subsidiary, United States Cellular Corporation (U.S. Cellular) and TDS' wholly-owned subsidiary, TDS Telecommunications LLC (TDS Telecom). In addition, the consolidated financial statements include certain entities in which TDS has a variable interest that require consolidation under GAAP. All material intercompany accounts and transactions have been eliminated.

TDS' business segments reflected in this Quarterly Report on Form 10-Q for the period ended June 30, 2018, are U.S. Cellular, Wireline, and Cable. TDS' non-reportable other business activities are presented as "Corporate, Eliminations and Other", which includes the operations of TDS' wholly-owned hosted and managed services (HMS) subsidiary, which operates under the OneNeck IT Solutions brand, and its wholly-owned subsidiary Suttle-Straus, Inc. (Suttle-Straus). HMS' and Suttle-Straus' financial results were not significant to TDS' operations. All of TDS' segments operate only in the United States, except for HMS, which includes an insignificant foreign operation. See Note 12 — Business Segment Information for summary financial information on each business segment.

The unaudited consolidated financial statements included herein have been prepared by TDS pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. However, TDS believes that the disclosures included herein are adequate to make the information presented not misleading. Certain numbers included herein are rounded to millions for ease of presentation; however, calculated amounts and percentages are determined using the unrounded numbers. These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in TDS' Annual Report on Form 10-K (Form 10-K) for the year ended December 31, 2017.

The accompanying unaudited consolidated financial statements contain all adjustments (consisting of normal recurring items, unless otherwise disclosed) necessary for the fair statement of TDS' financial position as of June 30, 2018 and December 31, 2017, its results of operations and comprehensive income for the three and six months ended June 30, 2018 and 2017, and its cash flows and changes in equity for the six months ended June 30, 2018 and 2017. These results are not necessarily indicative of the results to be expected for the full year. TDS has not changed its significant accounting and reporting policies from those disclosed in its Form 10-K for the year ended December 31, 2017, except as described below and as disclosed in Note 2 — Revenue Recognition and Note 8 — Investments in Unconsolidated Entities.

Change in Reportable Segments

TDS re-evaluated internal reporting roles with regard to its HMS business unit and, as a result, changed its reportable segments. Effective January 1, 2018, HMS was considered a non-reportable segment and is no longer being reported under TDS Telecom. This change enables TDS Telecom to continue to successfully execute on the Wireline and Cable segments' shared strategy to be the preferred service provider in its markets. Additionally, this change allows HMS to leverage TDS' corporate IT resources, to improve operations and customer service, and better position itself for growth. Prior periods have been recast to conform to this revised presentation. See Note 12 — Business Segment Information for additional information on TDS' reportable segments.

Restricted Cash

TDS presents restricted cash with cash and cash equivalents in the Consolidated Statement of Cash Flows. The following table provides a reconciliation of Cash and cash equivalents and restricted cash reported in the Consolidated Balance Sheet to the total of the amounts in the Consolidated Statement of Cash Flows as of June 30, 2018 and December 31, 2017.

(Dollars in millions)	June 30, 2018	December 31, 2017
Cash and cash equivalents	$873	$619
Restricted cash included in Other current assets	4	3
Cash, cash equivalents and restricted cash in the statement of cash flows	$877	$622

Franchise Rights

Effective January 1, 2018, TDS prospectively changed its estimated useful life for cable video franchise rights from indefinite-lived to 15 years due primarily to the effects of increasing competition and advancements in technology for delivering and consuming video programming. Commensurate with this change, TDS reviewed its cable video franchise rights for impairment, and noted that no impairment existed as of January 1, 2018. As a result, Depreciation, amortization and accretion increased $4 million, calculated on a straight-line basis, and Net income decreased $3 million or $0.03 per share (Basic and Diluted) for the three months ended June 30, 2018. For the six months ended June 30, 2018, Depreciation, amortization and accretion increased $9 million, calculated on a straight-line basis, and Net income decreased $7 million or $0.06 per share (Basic and Diluted).

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Recently Adopted Accounting Pronouncements

In March 2017, the FASB issued Accounting Standards Update 2017-07, Compensation – Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost (ASU 2017-07). ASU 2017-07 requires TDS to report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net periodic benefit cost must be presented separately from the service cost component and outside of Operating income in the Consolidated Statement of Operations. The new accounting standard also specifies that only the service cost component of net benefit cost is eligible for capitalization. TDS adopted ASU 2017-07 retrospectively on January 1, 2018, and prior periods have been recast to reflect ASU 2017-07. As a result of the adoption of ASU 2017-07, Selling, general and administrative expenses for the three and six months ended June 30, 2017, increased by $1 million from previously reported amounts, with a corresponding increase in Other, net income. This change did not have an impact on Income before income taxes, Net income, or Earnings per share for the three and six months ended June 30, 2017, nor did it have a cumulative impact to Retained earnings as of the date presented.

Recently Issued Accounting Pronouncements Not Yet Adopted

In February 2016, the FASB issued Accounting Standards Update 2016-02, Leases (ASU 2016-02). ASU 2016-02 requires lessees to record a right-of-use asset and lease liability for almost all leases. This ASU does not substantially impact the lessor accounting model. However, some changes to the lessor accounting guidance were made to align with lessee accounting changes within Accounting Standards Codification (ASC) 842, Leases and certain key aspects of ASC 606, Revenue from Contracts with Customers. Early adoption is permitted; however, TDS plans to adopt ASU 2016-02 on a modified retrospective basis when required on January 1, 2019. In January 2018, the FASB issued Accounting Standards Update 2018-01, Leases (ASU 2018-01), which permits an entity to elect an optional transition practical expedient to not evaluate land easements that exist or expired before the entities adoption of ASU 2016-02. TDS plans to adopt ASU 2018-01 in conjunction with its adoption of ASU 2016-02. TDS is evaluating the full effect that adoption of ASU 2016-02 and ASU 2018-01 will have on its financial condition, results of operations and disclosures. Upon adoption, TDS expects a substantial increase to assets and liabilities on its balance sheet and is in the process of implementing a new lease management and accounting system to assist in the application of the new standard.

In June 2016, the FASB issued Accounting Standards Update 2016-13, Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments (ASU 2016-13). ASU 2016-13 requires entities to use a new forward-looking, expected loss model to estimate credit losses. It also requires additional disclosure relating to the credit quality of trade and other receivables, including information relating to management's estimate of credit allowances. TDS is required to adopt ASU 2016-13 on January 1, 2020, using the modified retrospective approach. Early adoption is permitted as of January 1, 2019. TDS is evaluating the effects that adoption of ASU 2016-13 will have on its financial position, results of operations and disclosures.

In June 2018, the FASB issued Accounting Standards Update 2018-07, Compensation—Stock Compensation, Improvements to Nonemployee Share-Based Payment Accounting (ASU 2018-07). ASU 2018-07 expands the scope of Accounting Standards Codification (ASC) 718, Compensation—Stock Compensation, which currently only includes share-based payments issued to employees, to also include share-based payments issued to nonemployees for goods and services. TDS is required to adopt ASU 2018-07 on January 1, 2019, using the modified retrospective approach. Early adoption is permitted. The adoption of ASU 2018-07 is not expected to have a significant impact on TDS' financial position or results of operations.

Amounts Collected from Customers and Remitted to Governmental Authorities

TDS records amounts collected from customers and remitted to governmental authorities on a net basis within a tax liability account if the tax is assessed upon the customer and TDS merely acts as an agent in collecting the tax on behalf of the imposing governmental authority. If the tax is assessed upon TDS, then amounts collected from customers as recovery of the tax are recorded in Service revenues and amounts remitted to governmental authorities are recorded in Selling, general and administrative expenses in the Consolidated Statement of Operations. The amounts recorded gross in revenues that are billed to customers and remitted to governmental authorities totaled $22 million and $45 million for the three and six months ended June 30, 2018, respectively, and $20 million and $38 million for the three and six months ended June 30, 2017, respectively.

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Note 2 Revenue Recognition

Change in Accounting Policy

In May 2014, the FASB issued Accounting Standards Update 2014-09, Revenue from Contracts with Customers and has since amended the standard with Accounting Standards Update 2015-14, Revenue from Contracts with Customers: Deferral of the Effective Date, Accounting Standards Update 2016-08, Revenue from Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net), Accounting Standards Update 2016-10, Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing, Accounting Standards Update 2016-12, Revenue from Contracts with Customers: Narrow-Scope Improvements and Practical Expedients, and Accounting Standards Update 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers, collectively referred to hereinafter as ASU 2014-09. These standards replace existing revenue recognition rules with a single comprehensive model to use in accounting for revenue arising from contracts with customers. In February 2017, the FASB issued Accounting Standards Update 2017-05, Other Income – Gains and Losses from the Derecognition of Nonfinancial Assets: Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets (ASU 2017-05). ASU 2017-05 clarifies how entities account for the derecognition of a nonfinancial asset and adds guidance for partial sales of nonfinancial assets. TDS adopted the provisions of ASU 2014-09 and ASU 2017-05 and applied them to all contracts as of January 1, 2018, using a modified retrospective method. Under this method, the new accounting standard is applied only to the most recent period presented, recognizing the cumulative effect of the accounting change as an adjustment to the beginning balance of retained earnings. Accordingly, prior periods have not been recast to reflect the new accounting standard. The cumulative effect of applying the provisions of ASU 2014-09 resulted in an increase of $163 million in retained earnings as of January 1, 2018. ASU 2017-05 had no impact to retained earnings as of January 1, 2018.

As a practical expedient, TDS groups similar contracts or similar performance obligations together into portfolios of contracts or performance obligations if doing so does not result in a significant difference from applying the new accounting standard to the individual contracts. TDS applies this grouping method for the following types of transactions: device activation fees, contract acquisition costs, contract fulfillment costs, and certain customer promotions. Contract portfolios will be recognized over the respective expected customer lives or terms of the contracts.

The line items impacted by the adoption of ASU 2014-09 and ASU 2017-05 in the Consolidated Statement of Operations and the Consolidated Balance Sheet are presented below.

Consolidated Statement of Operations

Three Months Ended June 30, 2018	Results under prior accounting standards	Adjustment	As reported

(Dollars and shares in millions, except per share amounts)			
Operating revenues			
Service	$ 1,022	$ (29)	$ 993
Equipment and product sales	241	21	262
Total operating revenues	1,263	(8)	1,255
Cost of equipment and products	268	(2)	266
Selling, general and administrative	413	4	417
(Gain) loss on license sales and exchanges, net	(11)	–	(11)
Total operating expenses	1,192	2	1,194
Operating income (loss)	71	(10)	61
Income (loss) before income taxes	75	(10)	65
Income tax	23	(2)	21

expense (benefit)			
Net income (loss)	52	(8)	44
Less: Net income attributable to noncontrolling interests, net of tax	12	(1)	11
Net income (loss) attributable to TDS shareholders	39	(6)	33
Net income (loss) available to TDS common shareholders	39	(6)	33
Basic earnings (loss) per share available to TDS common shareholders	0.35	(0.05)	0.30
Diluted earnings (loss) per share available to TDS common shareholders	0.35	(0.06)	0.29

Numbers may not foot due to rounding.

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Six Months Ended June 30, 2018 (Dollars and shares in millions, except per share amounts)	Results under prior accounting standards	Adjustment	As reported
Operating revenues			
Service	$ 2,029	$ (59)	$ 1,970
Equipment and product sales	468	42	510
Total operating revenues	2,497	(17)	2,480
Cost of equipment and products	517	(5)	512
Selling, general and administrative	809	4	813
(Gain) loss on license sales and exchanges, net	(16)	(1)	(17)
	2,341	(2)	2,339

Total operating expenses			
Operating income (loss)	157	(16)	141
Income (loss) before income taxes	162	(16)	146
Income tax expense (benefit)	49	(4)	45
Net income (loss)	112	(11)	101
Less: Net income attributable to noncontrolling interests, net of tax	31	(2)	29
Net income (loss) attributable to TDS shareholders	81	(9)	72
Net income (loss) available to TDS common shareholders	81	(9)	72
Basic earnings (loss) per share available to TDS	0.73	(0.08)	0.65

common shareholders			
Diluted earnings (loss) per share available to TDS common shareholders	$ 0.72	$ (0.09)	$ 0.63

Numbers may not foot due to rounding.

The decrease in Service revenues and the increase in Equipment and product sales revenues are driven primarily by differences in the timing and classification of revenue recognized for certain arrangements with multiple performance obligations and ceasing to record deferred imputed interest and the resulting interest income on equipment installment contracts. Under prior accounting standards, revenues were allocated to deliverables using the relative selling price method, where consideration was allocated to each element on the basis of its relative selling price. Revenue recognized for the delivered items was limited to the amount due from the customer that was not contingent upon the delivery of additional products or services. Under ASU 2014-09, the revenue allocation of the transaction price is based on the relative standalone selling prices of the individual performance obligations in the customer’s contract, and the resulting revenue attributable to each is recognized as control over the performance obligation is transferred to the customer. This has resulted in increased Equipment and product sales revenues as more revenue is allocated to discounted equipment than under prior accounting standards. Under prior accounting standards, TDS deferred imputed interest related to equipment installment plan receivable contracts that exceeded twelve months, and recognized the corresponding interest income over the contract period in Service revenues. Under the provisions of ASU 2014-09, TDS has determined that equipment installment plan contracts do not contain a significant financing component, and accordingly, TDS ceased recording deferred imputed interest and the resulting interest income on equipment installment contracts upon the adoption of ASU 2014-09.

Cost of equipment and products decreased due to a change in timing of recognition of cost of goods sold in the agent channel. Under prior accounting standards, Equipment and product sales to agents and the related Cost of equipment and products was recognized when equipment was sold through from the agent to end user customers. In accordance with the provisions of ASU 2014-09, such amounts are recognized when TDS delivers the equipment to the agent. Selling, general and administrative expenses include the amortization of contract acquisition and contract fulfillment costs that are capitalized under ASU 2014-09.

Under ASU 2017-05, (Gain) loss on license sales and exchanges, net is calculated by subtracting the carrying amount of the distinct asset being disposed from the consideration measured and allocated to that distinct asset. The consideration, or transaction price, is the fair value of the licenses received. Under prior accounting standards, the transaction price was typically the fair value of the licenses surrendered.

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Consolidated Balance Sheet

As of June 30, 2018	Results under prior accounting standards	Adjustment	As reported
(Dollars in millions)			
Accounts receivable			
Customers and agents, less allowances	$ 830	$ 56	$ 886
Other, less allowances	113	(12)	101
Prepaid expenses	122	(19)	103
Other current assets	26	17	43
Total current assets	2,119	41	2,160
Licenses	2,239	1	2,240
Investments in unconsolidated entities	462	15	477
Other assets and deferred charges	414	172	586
Total assets	9,268	230	9,498
Customer deposits and deferred revenues	183	(18)	165
Accrued taxes	55	(1)	54
Other current liabilities	94	4	98
Total current liabilities	745	(16)	729
Deferred income tax liability, net	580	56	636
Other deferred liabilities and credits	515	8	523
Retained earnings	2,539	153	2,692
Total TDS shareholders' equity	4,331	153	4,484
Noncontrolling interests	659	29	688
Total equity	4,991	181	5,172
Total liabilities and equity	9,268	230	9,498

Numbers may not foot due to rounding.

As a result of adoption of ASU 2014-09, TDS recorded short-term and long-term contract assets and contract liabilities in its Consolidated Balance Sheet as of June 30, 2018. Under ASU 2014-09, the timing of recognition of revenue for each performance obligation may differ from the timing of the customer billing, creating a contract asset or contract liability. See Contract Balances below for additional information. Contract assets are included in Other current assets if short-term in nature or Other assets and deferred charges if long-term in nature. Short-term contract liabilities are classified as Customer deposits and deferred revenues and long-term contract liabilities are included in Other deferred liabilities and credits. Accounts receivable increased as a result of TDS ceasing to record deferred imputed interest. Certain prepaid expenses have been reclassified as contract cost assets, which are a component of Other assets and deferred charges. Investments in unconsolidated entities increased due to the cumulative effect of applying the provisions of ASU 2014-09 to certain of TDS' equity method investments as of January 1, 2018. Deferred income tax liabilities, net, increased due to the provisions of ASU 2014-09 increasing the net basis of assets on a U.S. GAAP basis, without a corresponding increase in tax basis. Contract cost assets have also been created as a result of ASU 2014-09 due to capitalization of fulfillment costs and costs to obtain a new contract. See Contract Cost Assets below for additional information.

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Nature of goods and services

The following is a description of principal activities from which TDS generates its revenues.

Services and Products	Nature, timing of satisfaction of performance obligations, and significant payment terms
Wireless services	Wireless service includes voice, messaging and data services. Revenue is recognized in Service revenues as wireless service is provided to the customer. Wireless services generally are billed and paid in advance on a monthly basis.
Wireless devices and accessories	U.S. Cellular offers a comprehensive range of wireless devices such as handsets, modems, mobile hotspots, home phones and tablets for use by its customers, as well as accessories. U.S. Cellular also sells wireless devices to agents and other third-party distributors for resale. U.S. Cellular frequently discounts wireless devices sold to new and current customers. U.S. Cellular also offers customers the option to purchase certain devices under installment contracts over a specified time period. For certain equipment installment plans, after a specified period of time, the customer may have the right to upgrade to a new device. Such upgrades require the customer to enter into an equipment installment contract for the new device, and transfer the existing device to U.S. Cellular. U.S. Cellular recognizes revenue in Equipment and product sales revenues when control of the device or accessory is transferred to the customer, which is generally upon delivery.
Wireless roaming	U.S. Cellular receives roaming revenues when other wireless carriers' customers use U.S. Cellular's wireless systems. U.S. Cellular recognizes revenue in Service revenues when the roaming service is provided to the other carrier's customer.
Wireless Eligible Telecommunications Carrier (ETC) Revenues	Telecommunications companies may be designated by states, or in some cases by the FCC, as an ETC to receive support payments from the Universal Service Fund if they provide specified services in "high cost" areas. ETC revenues recognized in the reporting period represent the amounts which U.S. Cellular is entitled to receive for such period, as determined and approved in connection with U.S. Cellular's designation as an ETC in various states.
Wireless tower rents	U.S. Cellular receives tower rental revenues when another carrier leases tower space on a U.S. Cellular owned tower. U.S. Cellular recognizes revenue in Service revenues in the period during which the services are provided.
Activation fees	TDS charges its end customers activation fees in connection with the sale of certain services and equipment. Activation fees charged by TDS Telecom in conjunction with a service offering are deferred and recognized over the average customer's service period. These fees charged at U.S. Cellular are deferred and recognized over the period benefitted.
Wireline services	Wireline services include broadband, video and voice services. Revenue is recognized in Service revenues as service is provided to the customer. Wireline services are generally billed and paid in advance on a monthly basis.
Wireline wholesale revenues	Wholesale revenues include network access services primarily to interexchange and wireless carriers for carrying data and voice traffic on TDS Telecom's network, special access services and state and federal support payments, including A-CAM. Wholesale revenues are

	recorded as the related service is provided.
Cable services	Cable services include broadband, video and voice services. Revenue is recognized in Service revenues as service is provided to the customer. Cable services are generally billed and paid in advance on a monthly basis.
IT hardware sales	TDS recognizes equipment revenue when it no longer has any requirements to perform, when title has passed and when the products are accepted by the customer.
Hosted and managed services	HMS Service revenues consist of cloud and hosting solutions, managed services, Enterprise Resource Planning (ERP) application management, colocation services, and IT hardware related maintenance and professional services. Revenues related to these services are recognized as services are provided.

Significant Judgments

U.S. Cellular and TDS Telecom sell bundled service and equipment offerings. In these instances, TDS recognizes its revenue based on the relative standalone selling prices for each distinct service or equipment performance obligation, or bundles thereof. TDS estimates the standalone selling price of the device or accessory to be its retail price excluding discounts. TDS estimates the standalone selling price of wireless service to be the price offered to customers on month-to-month contracts.

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Revenues from sales of equipment and products are recognized when control has transferred to the customer. Service revenues are recognized as the related service is provided. Services are deemed to be highly interrelated when the method and timing of transfer and performance risk are the same. Highly interrelated services that are determined to not be distinct have been grouped into a single performance obligation. Each month of services promised is a performance obligation. The series of monthly service performance obligations promised over the course of the contract are combined into a single performance obligation for purposes of the allocation.

TDS has made judgments regarding transaction price, including but not limited to issues relating to variable consideration, time value of money and returns. When determined to be significant in the context of the contract, these items are considered in the valuation of transaction price at contract inception or modification, as appropriate.

Disaggregation of Revenue

In the following table, revenue is disaggregated by type of service and timing of revenue recognition. Service revenues are recognized over time and Equipment sales are point in time.

Three Months Ended June 30, 2018	U.S. Cellular	TDS Telecom Wireline	Cable	TDS Telecom Total	Corporate, Eliminations and Other	Total
(Dollars in millions)						
Revenues from contracts with customers:						
Type of service:						
Retail service	$ 652	$ –	$ –	$ –	$ –	$ 652
Inbound roaming	39	–	–	–	–	39
Residential	–	80	47	127	–	127
Commercial	–	46	10	57	–	57
Wholesale	–	46	–	46	–	46
Other service	33	–	–	–	18	51
Service revenues from contracts with customers	724	173	57	229	18	971
Equipment and product sales	233	–	–	1	28	262
Total revenues from contracts with customers 1	$ 957	$ 173	$ 57	$ 230	$ 46	$ 1,233

Numbers may not foot due to rounding.

1 These amounts do not include revenues outside the scope of ASU 2014-09; therefore, revenue line items in this table will not agree to amounts presented in the Consolidated Statement of Operations.

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Six Months Ended June 30, 2018	U.S. Cellular	TDS Telecom Wireline	Cable	TDS Telecom Total	Corporate, Eliminations and Other	Total
(Dollars in millions)						
Revenue from contracts with customers:						
Type of service:						
Retail service	$ 1,301	$ –	$ –	$ –	$ –	$ 1,301
Inbound roaming	66	–	–	–	–	66
Residential	–	160	92	253	–	253
Commercial	–	94	20	114	–	114
Wholesale	–	93	–	93	–	93
Other service	65	–	–	(1)	34	98
Service revenues from contracts with customers	1,432	348	112	459	34	1,925
Equipment and product sales	450	1	–	1	59	510
Total revenues from contracts with customers [1]	$ 1,882	$ 349	$ 112	$ 460	$ 93	$ 2,435

Numbers may not foot due to rounding.

[1] These amounts do not include revenues outside the scope of ASU 2014-09; therefore, revenue line items in this table will not agree to amounts presented in the Consolidated Statement of Operations.

Contract Balances

For contracts that involve multiple element service and equipment offerings, the transaction price is allocated to each performance obligation based on its relative standalone selling price. When payment is collected in advance of delivery of goods or services, a contract liability is recorded. A contract asset is recorded when revenue is recognized in advance of TDS' right to receive consideration. Once there is an unconditional right to receive the consideration, TDS bills the customer under the terms of the respective contract and the amounts are recorded as receivables.

TDS recognizes Equipment and product sales revenue when the equipment is delivered to the customer and a corresponding contract asset or liability is recorded for the difference between the amount of revenue recognized and the amount billed to the customer in cases where discounts are offered. The contract asset or liability is reduced over the contract term as service is provided and billed to the customer.

The accounts receivable balance related to amounts billed and not paid on contracts with customers, net of allowances, is shown in the table below. Bad debts expense recognized for the three and six months ended June 30, 2018, related to receivables was $23 million and $43 million, respectively.

	June 30, 2018
(Dollars in millions)	

Accounts receivable	
Customer and agents	$ 882
Other	78
Total 1	$ 960

1 These amounts do not include accounts receivable related to revenues outside the scope of ASU 2014-09; therefore, accounts receivable line items presented in this table will not agree to amounts presented in the Consolidated Balance Sheet.

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The following table provides a rollforward of contract assets from contracts with customers, which are recorded in Other current assets and Other assets and deferred charges in the Consolidated Balance Sheet.

(Dollars in millions)	Contract Assets
Balance at December 31, 2017	$ –
Change in accounting policy	28
Contract additions	14
Terminated contracts	(1)
Revenue recognized	(14)
Balance at June 30, 2018	$ 27

The following table provides a rollforward of contract liabilities from contracts with customers, which are recorded in Customer deposits and deferred revenues and Other deferred liabilities and credits in the Consolidated Balance Sheet.

(Dollars in millions)	Contract Liabilities
Balance at December 31, 2017	$ –
Change in accounting policy - Deferred revenues reclassification 1	209
Change in accounting policy - Retained earnings impact	(22)
Contract additions	85
Revenue recognized	(107)
Balance at June 30, 2018	$ 165

1

This amount represents TDS' obligation to transfer goods or services to customers for which it had received payment and classified as deferred revenue at December 31, 2017.

Transaction price allocated to the remaining performance obligations

The following table includes estimated service revenue expected to be recognized in the future related to performance obligations that are unsatisfied (or partially unsatisfied) at the end of the reporting period. The estimates represent service revenue to be recognized when services are delivered to customers pursuant to service plan contracts. These estimates are based on contracts in place as of June 30, 2018, and may vary from actual results due to future contract modifications. As a practical expedient, revenue related to contracts of less than one year, generally contracts with month-to-month customers, are excluded from these estimates.

	Service Revenue
(Dollars in millions)	
Remainder of 2018	$ 285
2019	200
Thereafter	93
Total	$ 578

TDS has certain contracts at U.S. Cellular and TDS Telecom in which it bills an amount equal to a fixed per-unit price multiplied by a variable quantity (e.g., roaming agreements with other carriers). Because TDS invoices for such items in an amount that corresponds directly with the value of the performance completed to date, TDS may recognize revenue in that amount. As a practical expedient, these contracts are excluded from the estimate of future revenues expected to be recognized related to performance obligations that are unsatisfied as of the end of a reporting period.

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Contract Cost Assets

TDS expects that incremental commission fees paid as a result of obtaining contracts are recoverable and therefore TDS capitalizes these costs. As a practical expedient, costs with an amortization period of one year or less are not capitalized. TDS also incurs fulfillment costs, such as installation costs, where there is an expectation that a future benefit will be realized. Capitalized commission fees and fulfillment costs are amortized based on the transfer of the goods or services to which the assets relate, typically the contract term which ranges from thirteen months to five years. Contract cost asset balances, which are recorded in Other assets and deferred charges in the Consolidated Balance Sheet, were as follows:

	June 30, 2018
(Dollars in millions)	
Costs to obtain contracts	
Sales commissions	$ 149
Fulfillment costs	
Installation costs	10
Total contract cost assets	$ 159

Amortization of contract cost assets was $30 million and $62 million for the three and six months ended June 30, 2018, respectively, and was included in Selling, general and administrative expense. There was no impairment loss recognized for the three and six months ended June 30, 2018, related to contract cost assets.

Note 3 Fair Value Measurements

As of June 30, 2018 and December 31, 2017, TDS did not have any material financial or nonfinancial assets or liabilities that were required to be recorded at fair value in its Consolidated Balance Sheet in accordance with GAAP.

The provisions of GAAP establish a fair value hierarchy that contains three levels for inputs used in fair value measurements. Level 1 inputs include quoted market prices for identical assets or liabilities in active markets. Level 2 inputs include quoted market prices for similar assets and liabilities in active markets or quoted market prices for identical assets and liabilities in inactive markets. Level 3 inputs are unobservable. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. A financial instrument's level within the fair value hierarchy is not representative of its expected performance or its overall risk profile and, therefore, Level 3 assets are not necessarily higher risk than Level 2 assets or Level 1 assets.

TDS has applied the provisions of fair value accounting for purposes of computing the fair value of financial instruments for disclosure purposes as displayed below.

	Level within the Fair Value Hierarchy	June 30, 2018		December 31, 2017	
		Book Value	Fair Value	Book Value	Fair Value

(Dollars in millions)					
Cash and cash equivalents	1	$873	$873	$619	$619
Short-term investments	1	–	–	100	100
Long-term debt					
Retail	2	1,753	1,772	1,753	1,783
Institutional	2	534	546	534	522
Other	2	188	187	194	194

The fair values of Cash and cash equivalents and Short-term investments approximate their book values due to the short-term nature of these financial instruments. Long-term debt excludes capital lease obligations, other installment arrangements, the current portion of Long-term debt and debt financing costs. The fair value of "Retail" Long-term debt was estimated using market prices for TDS' 7.0% Senior Notes, 6.875% Senior Notes, 6.625% Senior Notes and 5.875% Senior Notes, and U.S. Cellular's 6.95% Senior Notes, 7.25% 2063 Senior Notes and 7.25% 2064 Senior Notes. TDS' "Institutional" debt consists of U.S. Cellular's 6.7% Senior Notes which are traded over the counter. TDS' "Other" debt consists of a senior term loan credit agreement and other borrowings with financial institutions. TDS estimated the fair value of its Institutional and Other debt through a discounted cash flow analysis using the interest rates or estimated yield to maturity for each borrowing, which ranged from 4.60% to 7.45% and 4.74% to 7.13% at June 30, 2018 and December 31, 2017, respectively.

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Note 4 Equipment Installment Plans

TDS sells devices to customers under equipment installment plans over a specified time period. For certain equipment installment plans, after a specified period of time or amount of payments, the customer may have the right to upgrade to a new device and have the remaining unpaid equipment installment contract balance waived, subject to certain conditions, including trading in the original device in good working condition and signing a new equipment installment contract. TDS values this trade-in right as a guarantee liability. The guarantee liability is initially measured at fair value and is determined based on assumptions including the probability and timing of the customer upgrading to a new device and the fair value of the device being traded-in at the time of trade-in. When a customer exercises the trade-in option, both the outstanding receivable and guarantee liability balances related to the respective device are reduced to zero, and the value of the used device that is received in the transaction is recognized as inventory. If the customer does not exercise the trade-in option at the time of eligibility, TDS begins amortizing the liability and records this amortization as additional equipment revenue. As of June 30, 2018 and December 31, 2017, the guarantee liability related to these plans was $12 million and $15 million, respectively, and is reflected in Customer deposits and deferred revenues in the Consolidated Balance Sheet.

The following table summarizes equipment installment plan receivables as of June 30, 2018 and December 31, 2017.

	June 30, 2018	December 31, 2017
(Dollars in millions)		
Equipment installment plan receivables, gross	$887	$ 873
Deferred interest	–	(80)
Equipment installment plan receivables, net of deferred interest	887	793
Allowance for credit losses	(62)	(65)
Equipment installment plan receivables, net	$825	$ 728
Net balance presented in the Consolidated Balance Sheet as:		
Accounts receivable — Customers and agents (Current portion)	$514	$ 428
Other assets and deferred charges (Non-current portion)	311	300
Equipment installment plan receivables, net	$825	$ 728

TDS uses various inputs, including internal data, information from the credit bureaus and other sources, to evaluate the credit profiles of its customers. From this evaluation, a credit class is assigned to the customer that determines the number of eligible lines, the amount of credit available, and the down payment requirement, if any. Customers assigned to credit classes requiring no down payment represent a lower risk category, whereas those assigned to credit classes requiring a down payment represent a higher risk category. The balance and aging of the equipment installment plan receivables on a gross basis by credit category were as follows:

	June 30, 2018			December 31, 2017		
	Lower Risk	Higher Risk	Total	Lower Risk	Higher Risk	Total

(Dollars in millions)						
Unbilled	$828	$ 18	$846	$807	$ 20	$827
Billed — current	26	1	27	31	1	32
Billed — past due	12	2	14	12	2	14
Equipment installment plan receivables, gross	$866	$ 21	$887	$850	$ 23	$873

Activity for the six months ended June 30, 2018 and 2017, in the allowance for credit losses balance for the equipment installment plan receivables was as follows:

	June 30, 2018	June 30, 2017
(Dollars in millions)		
Allowance for credit losses, beginning of period	$65	$50
Bad debts expense	23	31
Write-offs, net of recoveries	(26)	(24)
Allowance for credit losses, end of period	$62	$57

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Note 5 Income Taxes

In December 2017, the Tax Act was signed into law. Following the guidance of the FASB's Accounting Standards Update 2018-05, Income Taxes: Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118, tax expense for the year ended December 31, 2017, included a provisional estimate for the impact of the Tax Act on TDS' 2017 depreciation deduction. Tax expense for the six months ended June 30, 2018, includes an income tax benefit of $3 million related to adjusting this provisional estimate. TDS has not completed a full analysis of contracts and agreements related to fixed assets placed in service during 2017. TDS expects any final adjustments to the provisional amounts to be recorded by the third quarter of 2018, which could be material to TDS' financial statements.

Note 6 Earnings Per Share

Basic earnings per share available to TDS common shareholders is computed by dividing Net income available to TDS common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share available to TDS common shareholders is computed by dividing Net income available to TDS common shareholders by the weighted average number of common shares outstanding during the period adjusted to include the effects of potentially dilutive securities. Potentially dilutive securities primarily include incremental shares issuable upon the exercise of outstanding stock options and the vesting of performance and restricted stock units.

The amounts used in computing earnings per common share and the effects of potentially dilutive securities on the weighted average number of common shares were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
(Dollars and shares in millions, except per share amounts)				
Basic earnings per share available to TDS common shareholders:				
Net income available to TDS common shareholders used in basic earnings per share	$33	$10	$72	$47
Adjustments to compute diluted earnings:				
	(1)	–	(1)	–

Noncontrolling interest adjustment				
Net income available to TDS common shareholders used in diluted earnings per share	$32	$10	$71	$47
Weighted average number of shares used in basic earnings per share:				
Common Shares	105	104	105	103
Series A Common Shares	7	7	7	7
Total	112	111	112	110
Effects of dilutive securities	1	1	1	2
Weighted average number of shares used in diluted earnings per share	113	112	113	112
Basic earnings per share available to TDS common shareholders	$0.30	$0.09	$0.65	$0.43
Diluted earnings per share available to TDS common shareholders	$0.29	$0.09	$0.63	$0.42

Certain Common Shares issuable upon the exercise of stock options, vesting of performance and restricted stock units or conversion of preferred shares were not included in average diluted shares outstanding for the calculation of Diluted earnings per share available to TDS common shareholders because their effects were antidilutive. The number of such Common Shares excluded was 3 million and 4 million for the three and six months ended June 30, 2018, respectively, and 5 million and 4 million for the three and six months ended June 30, 2017, respectively.

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Note 7 Intangible Assets

Activity related to Licenses for the six months ended June 30, 2018, is presented below.

(Dollars in millions)	Licenses
Balance at December 31, 2017	$2,232
Acquisitions	2
Transferred to Assets held for sale	(1)
Divestitures	(10)
Exchanges - Licenses received	18
Exchanges - Licenses surrendered	(1)
Balance at June 30, 2018	$2,240

Note 8 Investments in Unconsolidated Entities

Investments in unconsolidated entities consist of amounts invested in wireless and wireline entities in which TDS holds a noncontrolling interest. On January 1, 2018, TDS adopted Accounting Standards Update 2016-01, Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities (ASU 2016-01) using the modified retrospective approach. Accordingly, prior periods have not been recast to reflect the new accounting principle. Equity securities are measured at fair value with changes in value recognized in Net income. The cumulative effect of applying the provisions of ASU 2016-01 resulted in an increase of $1 million in retained earnings as of January 1, 2018.

TDS' Investments in unconsolidated entities are accounted for using either the equity method or measurement alternative method as shown in the table below. The measurement alternative method was elected for investments without readily determinable fair values formerly accounted for under the cost method. The measurement alternative fair value represents cost minus any impairments plus or minus any observable price changes. TDS did not have an impairment or observable price change related to these investments for the three and six months ended June 30, 2018.

(Dollars in millions)	June 30, 2018	December 31, 2017
Equity method investments	458	435

Measurement alternative method investments	19	18
Total investments in unconsolidated entities	$477	$ 453

The following table, which is based in part on information provided by third parties, summarizes the combined results of operations of TDS' equity method investments.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
(Dollars in millions)				
Revenues	$1,661	$1,636	$3,324	$3,251
Operating expenses	1,204	1,229	2,417	2,446
Operating income	457	407	907	805
Other income (expense), net	1	(2)	(1)	(2)
Net income	$458	$405	$906	$803

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Note 9 Debt

Revolving Credit Agreements

In May 2018, TDS entered into a new $400 million revolving credit agreement with certain lenders and other parties and U.S. Cellular entered into a new $300 million revolving credit agreement with certain lenders and other parties. Amounts under both of the new revolving credit agreements are available for general corporate purposes, including acquisitions, spectrum purchases and capital expenditures, and may be borrowed, repaid and reborrowed from time to time until maturity in May 2023. As a result of the new agreements, TDS' and U.S. Cellular's previous revolving credit agreements due to expire in June 2021 were terminated.

The following table summarizes the terms of the revolving credit agreements as of June 30, 2018:

	TDS	U.S. Cellular
(Dollars in millions)		
Maximum borrowing capacity	$400	$ 300
Letters of credit outstanding	$1	$ 2
Amount borrowed	$–	$ –
Amount available for use	$399	$ 298

Except for the change in the maturity date, the terms of the new revolving credit agreements are substantially the same as the previous revolving credit agreements.

Term Loan

In May 2018, U.S. Cellular also amended its senior term loan credit agreement in order to align with the new revolving credit agreement. There were no significant changes to the maturity date or other key terms of the agreement.

Note 10 Variable Interest Entities

Consolidated VIEs

TDS consolidates variable interest entities (VIEs) in which it has a controlling financial interest as defined by GAAP and is therefore deemed the primary beneficiary. A controlling financial interest will have both of the following characteristics: (a) the power to direct the VIE activities that most significantly impact economic performance; and (b) the obligation to absorb the VIE losses and the right to receive benefits that are significant to the VIE. TDS reviews these criteria initially at the time it enters into agreements and subsequently when events warranting reconsideration occur. These VIEs have risks similar to those described in the "Risk Factors" in TDS' Form 10-K for the year ended December 31, 2017.

During 2017, U.S. Cellular formed USCC EIP LLC (Seller/Sub-Servicer), USCC Receivables Funding LLC (Transferor) and the USCC Master Note Trust (Trust), special purpose entities (SPEs), to facilitate a securitized borrowing using its equipment installment plan receivables. Under a Receivables Sale Agreement, U.S. Cellular wholly-owned, majority-owned and unconsolidated entities, collectively referred to as "affiliated entities", will transfer device equipment installment plan contracts to the Seller/Sub-Servicer. The Seller/Sub-Servicer will aggregate device equipment installment plan contracts, and perform servicing, collection and all other administrative activities related to accounting for the equipment installment plan contracts. The Seller/Sub-Servicer will sell the eligible equipment installment plan receivables to the Transferor, a bankruptcy remote entity, which will subsequently sell the receivables to the Trust. The Trust, which is bankruptcy remote and isolated from the creditors of U.S. Cellular, will be responsible for issuing asset-backed variable funding notes (Notes), which are collateralized by the equipment installment plan receivables owned by the Trust. Given that U.S. Cellular has the power to direct the activities of these SPEs, and that these SPEs lack sufficient equity to finance their activities, U.S. Cellular is deemed to have a controlling financial interest in the SPEs and, therefore, consolidates them. All transactions with third parties (e.g., issuance of the asset-backed variable funding notes) will be accounted for as a secured borrowing due to the pledging of equipment installment plan contracts as collateral, significant continuing involvement in the transferred assets, subordinated interests of the cash flows, and continued evidence of control of the receivables.

The following VIEs were formed to participate in FCC auctions of wireless spectrum and to fund, establish, and provide wireless service with respect to any FCC licenses won in the auctions:

- ♦ Advantage Spectrum, L.P. (Advantage Spectrum) and Sunshine Spectrum, Inc., the general partner of Advantage Spectrum; and
- ♦ King Street Wireless, L.P. (King Street Wireless) and King Street Wireless, Inc., the general partner of King Street Wireless.

These particular VIEs are collectively referred to as designated entities. The power to direct the activities that most significantly impact the economic performance of these VIEs is shared. Specifically, the general partner of these VIEs has the exclusive right to manage, operate and control the limited partnerships and make all decisions to carry on the business of the partnerships. The general partner of each partnership needs the consent of the limited partner, an indirect TDS subsidiary, to sell or lease certain licenses, to make certain large expenditures, admit other partners or liquidate the limited partnerships. Although the power to direct the activities of these VIEs is shared, TDS has the most significant level of exposure to the variability associated with the economic performance of the VIEs, indicating that TDS is the primary beneficiary of the VIEs. Therefore, in accordance with GAAP, these VIEs are consolidated.

In the six months ended June 30, 2018, U.S. Cellular received liquidating distributions from Aquinas Wireless, L.P. (Aquinas Wireless). Subsequent to the final distribution date, Aquinas Wireless had no remaining assets and was dissolved.

TDS also consolidates other VIEs that are limited partnerships that provide wireless service. A limited partnership is a variable interest entity unless the limited partners hold substantive participating rights or kick-out rights over the general partner. For certain limited partnerships, U.S. Cellular is the general partner and manages the operations. In these partnerships, the limited partners do not have substantive kick-out or participating rights and, further, such limited partners do not have the authority to remove the general partner. Therefore, these limited partnerships are also recognized as VIEs and are consolidated under the variable interest model.

The following table presents the classification and balances of the consolidated VIEs' assets and liabilities in TDS' Consolidated Balance Sheet.

(Dollars in millions)	June 30, 2018	December 31, 2017
Assets		
Cash and cash equivalents	$6	$ 3
Accounts receivable	559	473
Other current assets	8	7
Assets held for sale	1	–
Licenses	647	648
Property, plant and equipment, net	85	89
Other assets and deferred charges	320	304
Total assets	$1,626	$ 1,524

Liabilities		
Current liabilities	$26	$ 36
Deferred liabilities and credits	13	12
Total liabilities	$39	$ 48

Unconsolidated VIEs

TDS manages the operations of and holds a variable interest in certain other limited partnerships, but is not the primary beneficiary of these entities and, therefore, does not consolidate them under the variable interest model.

TDS' total investment in these unconsolidated entities was $5 million and $4 million at June 30, 2018 and December 31, 2017, respectively, and is included in Investments in unconsolidated entities in TDS' Consolidated Balance Sheet. The maximum exposure from unconsolidated VIEs is limited to the investment held by TDS in those entities.

Other Related Matters

During the six months ended June 30, 2018 and 2017, TDS made contributions, loans and/or advances to its VIEs totaling $51 million and $676 million, respectively; of these amounts $33 million and $659 million, respectively, are related to USCC EIP LLC as discussed above. TDS may agree to make additional capital contributions and/or advances to these or other VIEs and/or to their general partners to provide additional funding for operations or the development of licenses granted in various auctions. TDS may finance such amounts with a combination of cash on hand, borrowings under its revolving credit agreement and/or other long-term debt. There is no assurance that TDS will be able to obtain additional financing on commercially reasonable terms or at all to provide such financial support.

During the six months ended June 30, 2018, TDS recorded an out-of-period adjustment attributable to 2016 and 2017 due to errors in the application of accounting guidance applicable to the calculation of Noncontrolling interests with redemption features related to King Street Wireless, Inc. This out-of-period adjustment had the impact of increasing Net income attributable to noncontrolling interests, net of tax, by $6 million and decreasing Net income attributable to TDS shareholders by $6 million for the six months ended June 30, 2018. TDS determined that this adjustment was not material to any of the periods impacted. The adjustment was made in the first quarter of 2018.

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Note 11 Noncontrolling Interests

The following schedule discloses the effects of Net income attributable to TDS shareholders and changes in TDS' ownership interest in U.S. Cellular on TDS' equity:

Six Months Ended June 30,	2018	2017
(Dollars in millions)		
Net income attributable to TDS shareholders	$72	$47
Transfers to noncontrolling interests		
Change in TDS' Capital in excess of par value from U.S. Cellular's issuance of U.S. Cellular shares	(17)	(11)
Change in TDS' Capital in excess of par value from U.S. Cellular's repurchases of U.S. Cellular shares	–	–
Purchase of ownership in subsidiaries from noncontrolling interests	–	–
Net transfers to noncontrolling interests	(17)	(11)
Change from net income attributable to TDS and transfers to noncontrolling interests	$55	$36

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Note 12 Business Segment Information

U.S. Cellular and TDS Telecom are billed for all services they receive from TDS, consisting primarily of information processing, accounting and finance, and general management services. Such billings are based on expenses specifically identified to U.S. Cellular and TDS Telecom and on allocations of common expenses. Management believes the method used to allocate common expenses is reasonable and that all expenses and costs applicable to U.S. Cellular and TDS Telecom are reflected in the accompanying business segment information on a basis that is representative of what they would have been if U.S. Cellular and TDS Telecom operated on a stand-alone basis. TDS has re-evaluated internal reporting roles with regard to its HMS business unit and, as a result, has changed its reportable segments. Effective January 1, 2018, HMS is no longer reported under TDS Telecom, but is reported as a part of Corporate, Eliminations and Other. Prior periods have been recast to conform to the revised presentation.

Financial data for TDS' reportable segments for the three and six month periods ended, or as of June 30, 2018 and 2017, is as follows. See Note 1 — Basis of Presentation for additional information.

		TDS Telecom				
Three Months Ended or as of June 30, 2018[1]	U.S. Cellular	Wireline	Cable	TDS Telecom Total2	Corporate, Eliminations and Other	Total
(Dollars in millions)						
Operating revenues						
Service	$ 741	$ 173	$ 57	$ 230	$ 22	$ 993
Equipment and product sales	233	–	–	1	28	262
Total operating revenues	974	174	57	230	51	1,255
Cost of services (excluding Depreciation, amortization and accretion reported below)	187	67	27	93	20	300
Cost of equipment and products	240	–	–	–	26	266
Selling, general and administrative	342	50	15	64	11	417
Depreciation, amortization and accretion	159	36	18	53	8	220
(Gain) loss on asset disposals, net	1	1	–	1	–	2
(Gain) loss on license sales and exchanges, net	(11)	–	–	–	–	(11)
Operating income (loss)	56	21	(3)	18	(13)	61
Equity in earnings of unconsolidated entities	40	–	–	–	–	40
	3	2	–	2	1	6

Interest and dividend income						
Interest expense	(29)	–	–	–	(14)	(43)
Other, net	–	1	–	1	–	1
Income (loss) before income taxes	70	24	(2)	21	(26)	65
Income tax expense (benefit)3	18			5	(2)	21
Net income (loss)	52			16	(24)	44
Add back:						
Depreciation, amortization and accretion	159	36	18	53	8	220
(Gain) loss on asset disposals, net	1	1	–	1	–	2
(Gain) loss on license sales and exchanges, net	(11)	–	–	–	–	(11)
Interest expense	29	–	–	–	14	43
Income tax expense (benefit)3	18			5	(2)	21
Adjusted EBITDA4	$248	$59	$16	$75	$ (4)	$319
Investments in unconsolidated entities	$439	$4	$–	$4	$ 34	$477
Total assets	$7,075	$1,260	$643	$1,893	$ 530	$9,498
Capital expenditures	$86	$33	$13	$46	$ 6	$138

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Three Months Ended or as of June 30, 2017	U.S. Cellular	TDS Telecom			Corporate, Eliminations and Other	Total
		Wireline	Cable	TDS Telecom Total2		
(Dollars in millions)						
Operating revenues						
Service	$ 740	$ 180	$ 51	$ 231	$ 21	$ 992
Equipment and product sales	223	–	–	–	32	255
Total operating revenues	963	181	51	231	53	1,247
Cost of services (excluding Depreciation, amortization and accretion reported below)	189	65	24	89	20	298
Cost of equipment and products	260	1	–	1	26	287
Selling, general and administrative5	351	49	13	62	7	420
Depreciation, amortization and accretion	155	37	11	48	8	211
(Gain) loss on asset disposals, net	5	–	–	1	–	6
(Gain) loss on license sales and exchanges, net	(2)	–	–	–	–	(2)
Operating income (loss)5	5	28	3	31	(9)	27
Equity in earnings of unconsolidated entities	33	–	–	–	–	33
Interest and dividend income	2	1	–	1	1	4
Interest expense	(28)	–	–	–	(15)	(43)
Other, net5	–	1	–	1	–	1
Income (loss) before income taxes	12	30	3	33	(23)	22
Income tax expense (benefit)3	–			13	(3)	10
Net income (loss)	12			20	(20)	12
Add back:						
Depreciation, amortization and accretion	155	37	11	48	8	211
(Gain) loss on asset disposals, net	5	–	–	1	–	6
(Gain) loss on license sales and exchanges, net	(2)	–	–	–	–	(2)

Interest expense	28	–	–	–	15	43
Income tax expense (benefit)3	–			13	(3)	10
Adjusted EBITDA4	$ 198	$ 67	$ 14	$ 82	$ –	$ 280
Investments in unconsolidated entities	$ 414	$ 4	$ –	$ 4	$ 34	$ 452
Total assets	$ 7,077	$ 1,200	$ 611	$ 1,813	$ 488	$ 9,378
Capital expenditures	$ 84	$ 33	$ 12	$ 45	$ 5	$ 134

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Six Months Ended or as of June 30, 2018[1]	U.S. Cellular	TDS Telecom Wireline	TDS Telecom Cable	TDS Telecom Total2	Corporate, Eliminations and Other	Total
(Dollars in millions)						
Operating revenues						
Service	$ 1,465	$ 348	$ 112	$ 460	$ 45	$ 1,970
Equipment and product sales	450	1	–	1	59	510
Total operating revenues	1,915	349	112	461	104	2,480
Cost of services (excluding Depreciation, amortization and accretion reported below)	365	131	52	183	39	587
Cost of equipment and products	459	1	–	1	52	512
Selling, general and administrative	668	97	28	124	21	813
Depreciation, amortization and accretion	317	72	35	107	17	441
(Gain) loss on asset disposals, net	2	1	1	1	–	3
(Gain) loss on license sales and exchanges, net	(17)	–	–	–	–	(17)
Operating income (loss)	121	47	(4)	43	(23)	141
Equity in earnings of unconsolidated entities	78	–	–	–	–	78
Interest and dividend income	7	3	–	3	1	11
Interest expense	(58)	1	–	1	(29)	(86)
Other, net	(1)	1	–	1	2	2
Income (loss) before income taxes	147	52	(4)	48	(49)	146
Income tax expense (benefit)3	40			12	(7)	45
Net income (loss)	107			37	(43)	101
Add back:						
Depreciation, amortization and accretion	317	72	35	107	17	441
(Gain) loss on asset disposals, net	2	1	1	1	–	3
(Gain) loss on license sales and exchanges, net	(17)	–	–	–	–	(17)
Interest expense	58	(1)	–	(1)	29	86
	40			12	(7)	45

Income tax expense (benefit)3						
Adjusted EBITDA4	$ 507	$ 124	$ 32	$ 156	$ (4)	$ 659
Investments in unconsolidated entities	$ 439	$ 4	$ –	$ 4	$ 34	$ 477
Total assets	$ 7,075	$ 1,260	$ 643	$ 1,893	$ 530	$ 9,498
Capital expenditures	$ 155	$ 62	$ 24	$ 87	$ 11	$ 253

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Six Months Ended or as of June 30, 2017	U.S. Cellular	TDS Telecom Wireline	Cable	TDS Telecom Total2	Corporate, Eliminations and Other	Total
(Dollars in millions)						
Operating revenues						
Service	$ 1,486	$ 359	$ 100	$ 459	$ 44	$ 1,989
Equipment and product sales	413	1	–	1	82	496
Total operating revenues	1,899	360	100	459	127	2,485
Cost of services (excluding Depreciation, amortization and accretion reported below)	364	129	48	176	40	580
Cost of equipment and products	488	1	–	1	68	557
Selling, general and administrative5	691	97	25	123	12	826
Depreciation, amortization and accretion	307	76	21	97	18	422
(Gain) loss on asset disposals, net	9	1	1	1	–	10
(Gain) loss on license sales and exchanges, net	(19)	–	–	–	–	(19)
Operating income (loss)5	59	56	5	61	(11)	109
Equity in earnings of unconsolidated entities	66	–	–	–	(1)	65
Interest and dividend income	5	2	–	2	1	8
Interest expense	(56)	–	–	–	(29)	(85)
Other, net5	(1)	2	–	2	1	2
Income (loss) before income taxes	73	60	5	65	(39)	99
Income tax expense (benefit)3	33			25	(14)	44
Net income (loss)	40			40	(25)	55
Add back:						
Depreciation, amortization and accretion	307	76	21	97	18	422
(Gain) loss on asset disposals, net	9	1	1	1	–	10
(Gain) loss on license sales and exchanges, net	(19)	–	–	–	–	(19)

Interest expense	56	–	–	–	29	85
Income tax expense (benefit)3	33			25	(14)	44
Adjusted EBITDA4	$426	$137	$27	$164	$ 7	$597
Investments in unconsolidated entities	$414	$4	$–	$4	$ 34	$452
Total assets	$7,077	$1,200	$611	$1,813	$ 488	$9,378
Capital expenditures	$145	$50	$21	$71	$ 14	$230

Numbers may not foot due to rounding.

1 As of January 1, 2018, TDS adopted ASU 2014-09 using a modified retrospective approach. Under this method, the new accounting standard is applied only to the most recent period presented. As a result, 2018 amounts include the impacts of ASU 2014-09, but 2017 amounts remain as previously reported, except as specifically stated. See Note 2 — Revenue Recognition for additional information.

2 TDS Telecom Total includes eliminations between the Wireline and Cable segments.

3 Income tax expense (benefit) is not provided at the individual segment level for Wireline and Cable. TDS calculates income tax expense for “TDS Telecom Total”.

4 Adjusted earnings before interest, taxes, depreciation, amortization and accretion (Adjusted EBITDA) is a segment measure reported to the chief operating decision maker for purposes of making decisions about allocating resources to the segments and assessing their performance. Adjusted EBITDA is defined as net income, adjusted for the items set forth in the reconciliation above. TDS believes Adjusted EBITDA is a useful measure of TDS’ operating results before significant recurring non-cash charges, gains and losses, and other items as presented above as they provide additional relevant and useful information to investors and other users of TDS' financial data in evaluating the effectiveness of its operations and underlying business trends in a manner that is consistent with management's evaluation of business performance.

5 ASU 2017-07, regarding net periodic pension cost and net periodic postretirement benefit cost was adopted as of January 1, 2018, and applied retrospectively. All prior year numbers have been recast to conform to this standard.

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Telephone and Data Systems, Inc.

Additional Required Information

Controls and Procedures

Evaluation of Disclosure Controls and Procedures

TDS maintains disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) that are designed to ensure that information required to be disclosed in its reports filed or submitted under the Exchange Act is processed, recorded, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to TDS’ management, including its principal executive officer and principal financial officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

As required by SEC Rules 13a-15(b), TDS carried out an evaluation, under the supervision and with the participation of management, including its principal executive officer and principal financial officer, of the effectiveness of the design and operation of TDS’ disclosure controls and procedures as of the end of the period covered by this Quarterly Report. Based on this evaluation, TDS’ principal executive officer and principal financial officer concluded that TDS' disclosure controls and procedures were effective as of June 30, 2018, at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting

There have been no changes in internal controls over financial reporting that have occurred during the six months ended June 30, 2018, that have materially affected, or are reasonably likely to materially affect, TDS’ internal control over financial reporting, except as follows: TDS implemented internal controls to ensure that, upon adoption of the new revenue recognition accounting standard, ASU 2014-09, effective January 1, 2018, and for all periods thereafter, contracts will be properly evaluated and any impacts to the financial statements will be recognized in accordance with this new accounting standard.

Legal Proceedings

The United States Department of Justice (DOJ) has notified TDS, that it is conducting inquiries of U.S. Cellular and TDS under the federal False Claims Act. The DOJ is investigating U.S. Cellular’s participation in spectrum auctions 58, 66, 73 and 97 conducted by the FCC. U.S. Cellular is a limited partner in several limited partnerships which qualified for the 25% bid credit in each auction. TDS and U.S. Cellular are cooperating with the DOJ’s review. TDS and U.S. Cellular believe that U.S. Cellular’s arrangements with the limited partnership and the limited partnerships’ participation in the FCC auctions complied with applicable law and FCC rules. At this time, TDS cannot predict the outcome of this review.

Refer to the disclosure under Legal Proceedings in TDS' Form 10-K for the year ended December 31, 2017, for additional information. There have been no material changes to such information since December 31, 2017.

Unregistered Sales of Equity Securities and Use of Proceeds

On August 2, 2013, the Board of Directors of TDS authorized, and TDS announced by Form 8-K, a $250 million stock repurchase program for TDS Common Shares. Depending on market conditions, such shares may be repurchased in compliance with Rule 10b-18 of the Exchange Act, pursuant to Rule 10b5-1 under the Exchange Act, or pursuant to accelerated share repurchase arrangements, prepaid share repurchases, private transactions or as otherwise authorized. This authorization does not have an expiration date. TDS did not determine to terminate the foregoing Common Share repurchase program, or cease making further purchases thereunder, during the second quarter of 2018.

The maximum dollar value of shares that may yet be purchased under this program was $199 million as of June 30, 2018. There were no purchases made by or on behalf of TDS, and no open market purchases made by any "affiliated purchaser" (as defined by the SEC) of TDS, of TDS Common Shares during the quarter covered by this Form 10-Q.

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Other Information

The following information is being provided to update prior disclosures made pursuant to the requirements of Form 8-K, Item 2.03 — Creation of a Direct Financial Obligation or an Obligation Under an Off-Balance Sheet Arrangement of a Registrant.

TDS entered into a revolving credit agreement on May 10, 2018. A description of TDS' revolving credit agreement is included in TDS' Current Report on Form 8-K dated May 10, 2018, and is incorporated by reference herein.

U.S. Cellular entered into a revolving credit agreement on May 10, 2018. A description of U.S. Cellular's revolving credit agreement is included in U.S. Cellular's Current Report on Form 8-K dated May 10, 2018, and is incorporated by reference herein.

Neither TDS nor U.S. Cellular borrowed or repaid any cash amounts under their revolving credit agreements in the second quarter of 2018 or through the filing date of this Form 10-Q, and had no cash borrowings outstanding under their revolving credit agreements as of June 30, 2018, or as of the filing date of this Form 10-Q.

Further, U.S. Cellular did not borrow or repay any significant cash amounts under its receivables securitization agreement in the second quarter of 2018 or through the filing date of this Form 10-Q, and had no cash borrowings outstanding under its receivables securitization agreement as of June 30, 2018, or as of the filing date of this Form 10-Q.

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Exhibits

Exhibit Number	Description of Documents
Exhibit 4.1	Revolving Credit Agreement, among TDS, Wells Fargo National Association, as administrative agent, and the other lenders thereto, dated as of May 10, 2018, including Schedules and Exhibits, including the form of subsidiary Guaranty, is hereby incorporated by reference to Exhibit 4.1 to TDS' Current Report on Form 8-K dated May 10, 2018.
Exhibit 4.2	Revolving Credit Agreement, among U.S. Cellular, Toronto Dominion (Texas) LLC, as administrative agent, and the other lenders thereto, dated as of May 10, 2018, including Schedules and Exhibits, including the form of subsidiary Guaranty and Subordination Agreement, is hereby incorporated by reference to Exhibit 4.1 to U.S. Cellular's Form 8-K dated May 10, 2018.
Exhibit 4.3	First Amendment to Amended and Restated Credit Agreement, among U.S. Cellular, CoBank, ACB, as administrative agent, and the other lenders thereto, dated as of May 10, 2018, is hereby incorporated by reference to Exhibit 4.2 to U.S. Cellular's Form 8-K dated May 10, 2018.
Exhibit 10.1	Form of U.S. Cellular 2013 Long-Term Incentive Plan 2018 Performance Award Agreement for the President and CEO of U.S. Cellular is hereby incorporated by reference to Exhibit 10.2 to U.S. Cellular's Current Report on Form 8-K dated March 12, 2018.
Exhibit 10.2	Form of 2018 TDS Performance Share Award Agreement is hereby incorporated by reference to Exhibit 10.1 to TDS' Current Report on Form 8-K dated March 14, 2018.
Exhibit 10.3	TDS 2018 Officer Bonus Program is hereby incorporated by reference to Exhibit 10.1 to TDS' Current Report on Form 8-K dated March 23, 2018.
Exhibit 10.4	Form of Consulting Agreement Effective June 1, 2018, between TDS and Douglas D. Shuma is hereby incorporated by reference to Exhibit 10.1 to TDS' Current Report on Form 8-K/A dated February 23, 2018, as filed with the SEC on May 23, 2018.
Exhibit 10.5	Summary of Letter Agreement between TDS and Douglas W. Chambers is hereby incorporated by reference to Exhibit 10.1 to TDS' Current Report on Form 8-K/A dated February 23, 2018, as filed with the SEC on June 4, 2018.
Exhibit 11	Statement regarding computation of per share earnings is included herein as Note 6 — Earnings Per Share in the Notes to Consolidated Financial Statements.
Exhibit 12	Statement regarding computation of ratio of earnings to fixed charges.
Exhibit 31.1	Principal executive officer certification pursuant to Rule 13a-14 of the Securities Exchange Act of 1934.
Exhibit 31.2	Principal financial officer certification pursuant to Rule 13a-14 of the Securities Exchange Act of 1934.
Exhibit 32.1	Principal executive officer certification pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code.
Exhibit 32.2	Principal financial officer certification pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code.
Exhibit 101.INS	XBRL Instance Document
Exhibit 101.SCH	XBRL Taxonomy Extension Schema Document
Exhibit 101.PRE	XBRL Taxonomy Presentation Linkbase Document

Exhibit 101.CAL	XBRL Taxonomy Calculation Linkbase Document
Exhibit 101.LAB	XBRL Taxonomy Label Linkbase Document
Exhibit 101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

The foregoing exhibits include only the exhibits that relate specifically to this Form 10-Q or that supplement the exhibits identified in TDS' Form 10-K for the year ended December 31, 2017. Reference is made to TDS' Form 10-K for the year ended December 31, 2017, for a complete list of exhibits, which are incorporated herein except to the extent supplemented or superseded above.

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Form 10-Q Cross Reference Index

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	TELEPHONE AND DATA SYSTEMS, INC. (Registrant)
Date: August 3, 2018	/s/ LeRoy T. Carlson, Jr. LeRoy T. Carlson, Jr. President and Chief Executive Officer (principal executive officer)
Date: August 3, 2018	/s/ Douglas W. Chambers Douglas W. Chambers Senior Vice President - Finance and Chief Accounting Officer (principal financial officer and principal accounting officer)
Date: August 3, 2018	/s/ Anita J. Kroll Anita J. Kroll Vice President and Controller